



John Keel, CPA
State Auditor

A Report on

**State of Texas Compliance with
Federal Requirements for the
Research and Development
Cluster for the Fiscal Year Ended
August 31, 2013**

February 2014
Report No. 14-022



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SAO Report No. 14-022
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Overall Conclusion

With the exception of certain non-compliance detailed in this report, 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 2013.

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 up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, procurement, reporting, and monitoring of non-state entities (subrecipients) 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 the identification of key personnel who work on each federal award. The compliance areas determined to be direct and material may vary significantly among audited entities. Therefore, a comparison of the number of reported findings among entities included in this report may not be an accurate indicator of performance. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$73,222,469 in federal funds during fiscal year 2013 and (2) other selected federal programs.

From September 1, 2012, through August 31, 2013, the State of Texas expended \$48.6 billion in federal funds. The State Auditor's Office audited compliance with requirements

The Research and Development Cluster

The Research and Development Cluster 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.

Higher Education Institutions and Agency Audited

- Texas A&M Engineering Experiment Station.
- Texas A&M Health Science Center.
- The University of Texas at Austin.
- The University of Texas at El Paso.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Southwestern Medical Center.

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.

for the Research and Development Cluster at six higher education institutions and one agency (see text box). Those entities spent \$952 million in federal Research and Development Cluster funds during fiscal year 2013.

Auditors identified 22 findings for the Research and Development Cluster, including:

- Two findings classified as material weaknesses and material non-compliance.
- Two findings classified as material weaknesses and non-compliance.
- Eighteen findings classified as significant deficiencies and 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

At three higher education institutions, auditors identified material control or compliance findings related to allowable activities and allowable costs, cash management, period of availability of federal funds, and reporting. Specifically:

The University of Texas at El Paso was unable to provide documentation to support its payroll distribution for 30 (48 percent) of 62 payroll transactions tested.

The University of Texas M.D. Anderson Cancer Center did not have adequate controls to ensure that it based its drawdowns of federal funds only on paid amounts; instead, it executed federal cash draws based, in part, on unpaid expenditures.

The University of Texas M.D. Anderson Cancer Center did not submit required Federal Funding Accountability and Transparency Act reports during fiscal year 2013 and did not have a process to do so.

The University of Texas Southwestern Medical Center did not incur costs within the funding period for its awards or did not liquidate its obligations within the required time period for 24 (40 percent) of 60 transactions tested that were recorded after the end of the award period of availability.

The higher education institutions and agency audited did not always establish adequate controls over compliance or comply with federal requirements related to allowable activities and allowable costs for the Research and Development Cluster. For example:

The Texas A&M Health Science Center did not always have adequate documentation to support its allocation of payroll expenditures.

The University of Texas Health Science Center at San Antonio and the Texas A&M Health Science Center each included an unallowable cost in the direct cost base used to calculate indirect cost charges. In addition, the Texas A&M Health Science Center and the University of Texas at El Paso did not always apply the correct indirect cost rate to federal awards.

The Texas A&M Health Science Center and the Texas A&M Engineering Experiment Station each charged an unallowable cost to a federal award.

The higher education institutions audited did not always comply with requirements related to the period of availability of federal funds. For example:

The Texas A&M Health Science Center did not always incur costs within the period of availability and did not always liquidate obligations within the required time period.

The University of Texas at El Paso did not always liquidate obligations within the required time period.

Five of seven entities audited did not always comply with federal reporting requirements. Specifically:

The Texas A&M Engineering Experiment Station, the Texas A&M Health Science Center, the University of Texas at El Paso, the University of Texas M.D. Anderson Cancer Center, and the University of Texas Southwestern Medical Center did not always report their subawards accurately or in a timely manner as required by the Federal Funding Accountability and Transparency Act.

The Texas A&M Engineering Experiment Station, the University of Texas at El Paso, the University of Texas M.D. Anderson Cancer Center, and the University of Texas Southwestern Medical Center did not always submit accurate financial reports and/or did not always submit financial reports in a timely manner.

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

The University of Texas at Austin and the University of Texas Health Science Center at San Antonio did not always adhere to state and federal equipment requirements or their procedures for facilitating compliance with those

requirements. They did not always (1) maintain adequate property records for equipment and/or (2) ensure that they adequately safeguarded equipment.

The higher education institutions and agency 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 findings related to requirements for Recovery Act funds. Specifically:

- The Texas A&M Health Science Center and the Texas A&M Engineering Experiment Station did not always notify non-state entities to which they passed Recovery Act funds about all required information when they disbursed funds to the non-state entities.
- One of the Recovery Act reports that the University of Texas M.D. Anderson Cancer Center submitted was not accurate.

Auditors followed up on higher education institutions' and agencies' corrective action plans for 29 audit findings from prior fiscal years related to the Research and Development Cluster.

State entities fully implemented corrective action plans for 16 (55 percent) of those 29 findings and partially implemented corrective action plans for 11 (38 percent) of those 29 findings. Two (7 percent) of those findings are no longer valid because they related to federal awards that have ended.

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 at the higher education institutions and agency audited. At two higher education institutions and one agency audited, auditors identified control weaknesses related to user access or change management for those entities' time and effort system.

Summary of Objectives, Scope, and Methodology

With respect to the Research and Development Cluster, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess control risk of noncompliance, and perform tests of those controls unless 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.

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2012, through August 31, 2013. The audit work included control and compliance tests at six higher education institutions and one agency across the state.

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Research and Development Cluster at each higher education institution and agency audited. Auditors' sampling methodology was based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data each higher education institution provided and determined that the data 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.

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Independent Auditor's Report

*State of Texas Compliance with
Federal Requirements for the Research
and Development Cluster for the Fiscal
Year Ended
August 31, 2013*

Report on Compliance for the Research and Development Cluster, and
Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on Compliance for the Research and Development Cluster

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2013. The State's major federal programs at one agency and various higher education institutions are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the State's compliance for the Research and Development Cluster based on our audit of the types of compliance requirements referred to above. 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.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2013. 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, 2013. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal 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.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Research and Development Cluster. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion on the Research and Development Cluster

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the Research and Development Cluster:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
University of Texas at El Paso	Research and Development Cluster	Activities Allowed or Unallowed	2013-178
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Cash Management	2013-184

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the Research and Development Cluster.

Qualified Opinion on the Research and Development Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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	Cluster	Compliance Requirement	Finding Number
Texas A&M Engineering Experiment Station	Research and Development Cluster	Activities Allowed or Unallowed	2013-127
		Allowable Costs/Cost Principles	
		Reporting	2013-128
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	2013-129
Texas A&M University Health Science Center	Research and Development Cluster	Activities Allowed or Unallowed	2013-133
		Allowable Costs/Cost Principles	
	Research and Development Cluster	Cash Management	2013-134
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Period of Availability of Federal Funds	2013-135
		Reporting	2013-136
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	2013-137

Agency	Cluster	Compliance Requirement	Finding Number
University of Texas at Austin	Research and Development Cluster	Equipment and Real Property Management	2013-176
	Research and Development Cluster Research and Development Cluster - ARRA	Procurement and Suspension and Debarment	2013-177
University of Texas at El Paso	Research and Development Cluster	Cash Management	2013-179
		Period of Availability of Federal Funds	2013-180
		Reporting	2013-181
University of Texas Health Science Center at San Antonio	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-182
		Equipment and Real Property Management	2013-183
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Reporting	2013-185
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Subrecipient Monitoring	2013-186
University of Texas Southwestern Medical Center	Research and Development Cluster	Period of Availability of Federal Funds	2013-192
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Reporting	2013-193
		Subrecipient Monitoring	2013-194

Our opinion on the Research and Development Cluster is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on the Research and Development Cluster to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Research and Development Cluster 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 reasonable possibility that material noncompliance with a type of 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, as described in the accompanying schedule of findings and questioned costs, to be material weaknesses:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
University of Texas at El Paso	Research and Development Cluster	Activities Allowed or Unallowed	2013-178
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Cash Management	2013-184
	Research and Development Cluster Research and Development Cluster - ARRA	Reporting	2013-185
University of Texas Southwestern Medical Center	Research and Development Cluster Research and Development Cluster - ARRA	Period of Availability of Federal Funds	2013-192

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, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies:

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Texas A&M Engineering Experiment Station	Research and Development Cluster	Activities Allowed or Unallowed	2013-127
		Allowable Costs/Cost Principles	
		Reporting	2013-128
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	2013-129

Agency or Higher Education Institution	Program	Compliance Requirement	Finding Number
Texas A&M Health Science Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-133
	Research and Development Cluster	Cash Management	2013-134
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Period of Availability of Federal Funds	2013-135
	Research and Development Cluster	Reporting	2013-136
University of Texas at Austin	Research and Development Cluster	Special Tests and Provisions - R3 - Subrecipient Monitoring	2013-137
	Research and Development Cluster	Equipment and Real Property Management	2013-176
University of Texas at El Paso	Research and Development Cluster	Procurement and Suspension and Debarment	2013-177
	Research and Development Cluster	Cash Management	2013-179
	Research and Development Cluster	Period of Availability of Federal Funds	2013-180
University of Texas Health Science Center at San Antonio	Research and Development Cluster	Reporting	2013-181
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2013-182
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Equipment and Real Property Management	2013-183
	Research and Development Cluster	Subrecipient Monitoring	2013-186
University of Texas Southwestern Medical Center	Research and Development Cluster	Reporting	2013-193
	Research and Development Cluster	Subrecipient Monitoring	2013-194

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Research and Development Cluster of the State for the year ended August 31, 2013, 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, 2013*.

John Keel, CPA
State Auditor

February 21, 2014

**Schedule of Federal Program Expenditures for
The Research and Development Cluster for the State of Texas
For the Year Ended August 31, 2013**

Schedule of Federal Program Expenditures			
Agency or Higher Education Institution Audited	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Texas A&M Engineering Experiment Station			
Other Than American Recovery and Reinvestment Act	\$ 6,657,834	\$ 56,120,486	\$ 62,778,320
American Recovery and Reinvestment Act	580,939	2,027,281	2,608,220
Texas A&M University Health Science Center			
Other Than American Recovery and Reinvestment Act	502,212	17,628,611	18,130,823
American Recovery and Reinvestment Act	40,096	66,838	106,934
The University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	18,325,445	331,791,720	350,117,165
American Recovery and Reinvestment Act	1,225,548	13,468,102	14,693,650
The University of Texas at El Paso			
Other Than American Recovery and Reinvestment Act	5,010,662	28,881,004	33,891,666
American Recovery and Reinvestment Act	0	867,506	867,506
The University of Texas Health Science Center at San Antonio			
Other Than American Recovery and Reinvestment Act	9,891,319	88,297,119	98,188,438
American Recovery and Reinvestment Act	2,971	267,110	270,081
The University of Texas M.D. Anderson Cancer Center			
Other Than American Recovery and Reinvestment Act	11,693,884	162,432,837	174,126,721
American Recovery and Reinvestment Act	341,376	1,801,564	2,142,940
The University of Texas Southwestern Medical Center			
Other Than American Recovery and Reinvestment Act	16,198,975	177,137,586	193,336,561
American Recovery and Reinvestment Act	(778)	538,105	537,327
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	\$ 68,280,331	\$ 862,289,363	\$ 930,569,694
Total Audited Research and Development American Recovery and Reinvestment Act	\$ 2,190,152	\$ 19,036,506	\$ 21,226,658
Total Audited	\$ 70,470,483	\$ 881,325,869	\$ 951,796,352
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013</i>.</p> <p>Note 2: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled \$644 Million for the year ended August 31, 2013. Of that amount, \$28.1 Million was American Recovery and Reinvestment Act expenditures.</p> <p>Note 3: The Research and Development Cluster includes many programs funded by various federal agencies. For a list of Research and Development expenditures by program or by federal awarding agency, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013</i>.</p>			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with
Federal Requirements for the Research
and Development Cluster for the Fiscal
Year Ended
August 31, 2013*

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 Year Ended August 31, 2013*.

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:
Qualified

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 Cluster

Dollar threshold used to distinguish between type A and type B programs: \$73,222,469

Auditee qualified as low-risk auditee? No

Section 2:

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 Year Ended August 31, 2013*.

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 A&M Engineering Experiment Station

Reference No. 2013-127

Activities Allowed or Unallowed Allowable Costs/Cost Principles

Research and Development Cluster

Award year – November 1, 2007 to October 31, 2013

Award number – CFDA 47.076, Education and Human Resources, HRD-0703290

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs (Non-payroll)

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, Appendix A, C.2).

Questioned Cost: \$ 0

National Science Foundation

According to Office of Management and Budget Circular A-21, Section J-17, costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

One (1 percent) of 68 direct cost transactions tested at the Texas A&M Engineering Experiment Station (Experiment Station) was not allowable. The Experiment Station charged \$240 to CFDA 47.076, award HRD-0703290, for a string quartet performance as entertainment at an awards ceremony. The Experiment Station did not identify the expenditure as unallowable during its approval process. The Experiment Station reversed that expenditure after auditors identified the error; therefore, there were no questioned costs.

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 Experiment Station did not have sufficient controls over change management testing and migration for its Time and Effort application. Specifically, for 2 (67 percent) of 3 changes to the Time and Effort application tested, the Experiment Station did not maintain adequate documentation of its testing or final authorization prior to migrating those changes to the production environment. The Experiment Station's change management policies require that documentation. Additionally, the Experiment Station did not adequately restrict developers' access to modify code in the production environment for the Time and Effort application.

Insufficient change management procedures or inadequate segregation of duties among developers increases the risk of unauthorized programming changes being made to critical information systems.

Recommendations:

The Experiment Station should:

- Apply only allowable costs to federally funded awards.
- Maintain documentation of all change requests related to critical information systems to support that changes were authorized, tested, and approved prior to migration to the production environment.
- Restrict access to modify code in the production environment for critical information systems to only those individuals who are authorized to perform such tasks.

Management Response and Corrective Action Plan:

Direct Costs (Non-payroll)

Texas A&M Engineering Experiment Station acknowledges and agrees with the finding. Additional OMB Circular A-21 training has been provided for Sponsored Research Services (SRS) Accounts Payable/Voucher Compliance staff that are responsible for reviewing expenditures prior to being charged to project accounts. Formal research administration training will be provided to SRS staff in Spring 2014 and as available.

Implementation Date: May 2014

Responsible Person: Dana Thomas

General Controls

Texas A&M Engineering Experiment Station acknowledges and agrees with the finding. The Texas A&M University System is adding additional access controls to the source control and build system used by the Time and Effort application. This will restrict the building of production software release to only authorized employees. Additionally, the Texas A&M University System will implement better practices for the retention and management of documentation related to testing and authorization of changes in its production environment. Testing plans and results along with final authorization will be electronically captured and attached to each change item. The Texas A&M University system is also in the process of selecting and implementing a new service desk software application. If this software solution provides superior change management processes over the existing process, it will be adopted as the new change management solution.

Implementation Date: March 2014

Responsible Person: Mark Schulz

Reference No. 2013-128

Reporting

Research and Development Cluster

Award years – December 1, 2009 to November 30, 2013; September 1, 2011 to April 30, 2013; August 1, 2011 to August 31, 2014; and March 15, 2011 to March 15, 2014

Award numbers – CFDA 12.300, Basic and Applied Scientific Research, N00014-10-1-0389; CFDA 81.049, Office of Science Financial Assistance Program, DE-SC0006885; CFDA 47.041, Engineering Grants, CMMI-1131758; and CFDA 12.630, Basic, Applied, and Advanced Research in Science and Engineering, HQ0147-11-C-6009

Type of finding - Significant Deficiency and Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Report SF-425 or the Request for Advance or Reimbursement SF-270 to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425 and SF-270, including definitions and requirements of key reporting elements.

Questioned Cost: \$ 0

Office of Naval Research
U.S. Department of Energy
National Science Foundation
Missile Defense Agency

During fiscal year 2013, Texas A&M System Sponsored Research Services (Sponsored Research Services) prepared the financial reports for the Texas A&M Engineering Experiment Station (Experiment Station).

The Experiment Station did not ensure that its financial reports included all activity in the reporting period, were supported by applicable accounting records, and were fairly presented in accordance with program requirements. Specifically, for 2 (3 percent) of 60 reports tested, the reports did not accurately reflect award expenditures:

- For one SF-270 report, there was a formula error in the spreadsheet used to calculate program expenditures and cash draws to date. The formula double-counted a monthly draw; as a result, the SF-270 report was overstated by \$5,347.
- For one SF-425 report, Sponsored Research Services used a prior period's accounting system report; as a result, the SF-425 was understated by \$7,976.

The Experiment Station and Sponsored Research Services do not review financial reports after they are prepared to verify that the reports are accurate and supported by accounting system records. Unsupported and inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor its awards.

Federal Funding Accountability and Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, CFR, Chapter 170).

Sponsored Research Services prepared and submitted Transparency Act reports for the Experiment Station during fiscal year 2013. Prior to that, the Experiment Station prepared and submitted its Transparency Act reports.

For fiscal year 2013, the Experiment Station did not ensure that Sponsored Research Services consistently submitted Transparency Act reports within the required time frames. Specifically, for 2 (40 percent) of 5 reports tested, the Experiment Station submitted the reports 31 and 70 days late. That occurred because of a lack of communication between the contracting group and the Transparency Act reporting group at the Experiment Station regarding the issuance of the subawards, which resulted in late report submission.

Not reporting subawards within the required time frames decreases the reliability and availability of information to the awarding agency and other users of that information.

Recommendations:

The Experiment Station should:

- Ensure that its financial reports accurately include all activity in the reporting period and are supported by applicable accounting records.
- Identify and report projects subject to Transparency Act requirements in a timely manner.

Management Response and Corrective Action Plan:

Financial Reporting

Texas A&M Engineering Experiment Station acknowledges and agrees with the finding. Sponsored Research Services (SRS) reviewed its internal procedures and implemented the following additional steps to ensure that financial reports are accurate:

- *When setting up a new spreadsheet for use in calculating data to be transferred to a financial report, the spreadsheet will be reviewed and verified for accuracy by a second SRS accountant before use.*
- *EPIK reports used to prepare financial reports will always be accessed utilizing the “Billing History by Billing Method” to ensure that all expenses are accurately reported.*
- *All financial reports will be reconciled to the accounting system for accuracy and signed by a second SRS accountant before submission.*

Implementation Date: October 2013

Responsible Person: Diane Hassel

Federal Funding Accountability and Transparency Act Reporting

Texas A&M Engineering Experiment Station acknowledges and agrees with the finding. A Sponsored Research Services (SRS) procedure has been implemented to provide a secondary review of all subawards as they are executed to determine if FFATA reporting is required. Additionally, the Sub-recipient Monitoring Group procedure has been reinforced to ensure subawards are reviewed and reported in a timely manner.

Implementation Date: December 2013

Responsible Person: Michele Lacy

Reference No. 2013-129

Special Tests and Provisions –R3 – Subrecipient Monitoring

Research and Development Cluster – ARRA

Award years – September 1, 2009 to September 30, 2013; May 15, 2012 to September 30, 2013; and February 1, 2010 to December 31, 2012

Award numbers – CFDA 47.082, Trans-NSF Recovery Act Research Support, CMMI-0936599 and CBET-0941313; and CFDA 81.087, Renewable Energy Research and Development, DE-EE0002757

Type of finding – Significant Deficiency and Non-Compliance

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 schedules of expenditures of federal awards information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Questioned Cost: \$ 0

National Science Foundation
U.S. Department of Energy

The Texas A&M Engineering Experiment Station (Experiment Station) did not provide the required notifications at the time of disbursement of funds to all four Recovery Act subrecipients to which it made disbursements during fiscal year 2013. The Experiment Station did not consistently use its process to ensure that it made those notifications. Inadequate identification of Recovery Act information at the time of disbursements may lead to improper reporting of Recovery Act funds in subrecipients' schedules of expenditures of federal awards.

Recommendation:

The Experiment Station should consistently use its process to provide required notifications to Recovery Act subrecipients at the time of each disbursement.

Management Response and Corrective Action Plan:

Texas A&M Engineering Experiment Station acknowledges and agrees with the finding. Sponsored Research Services (SRS) has reviewed its process to ensure that subrecipients are consistently notified of required Recovery Act information at the time of disbursement. Check stubs will include the following:

- *Federal Award number.*
- *CFDA number.*
- *Amount of ARRA funds.*

Implementation Date: September 2013

Responsible Person: Dana Thomas

Texas A&M Health Science Center

Reference No. 2013-133

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs (Non-payroll)

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).

Questioned Cost: \$ 809 U.S. Department of Defense U.S. Department of Health and Human Services
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One (2 percent) of 49 direct cost transactions tested at the Texas A&M Health Science Center (Health Science Center) was unallowable. The Health Science Center charged an unallowable late payment fee of \$11 to a federal award because it did not include the object code for late payment fees in its list of object codes not allowed on federal awards. Based on the Health Science Center’s federal Research and Development Cluster expenditures for fiscal year 2013, it charged \$745 to that object code during the year; therefore, questioned costs associated with that issue totaled \$745. The award numbers and years associated with this issue are listed below. In addition to the unallowable direct costs charged, the Health Science Center may have charged associated indirect costs, which would also be unallowable.

Payroll Expenditures

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, CFR, Section 220, Appendix A (J)(10)).

For 5 (8 percent) of 60 payroll transactions tested, the Health Science Center did not have certified time and effort reports. According to the Health Science Center’s policy, employees must certify their time and effort reports within 45 days after they are released to principal investigators for certification. The outstanding time and effort reports were certified after auditors brought the errors to the Health Science Center’s attention; therefore, there were no questioned costs. However, the time and effort reports were submitted between 34 and 70 days late. A prolonged elapsed time between activity and certification of the activity can decrease the accuracy of reporting and increase the time between payroll distribution and any required adjustments to that distribution. The Health Science Center notifies employees when their time and effort certifications are late; however, it does not actively monitor outstanding time and effort reports to ensure they are completed. The award number and years associated with this issue are listed below.

Indirect Costs

Indirect costs are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. Indirect costs shall be distributed to applicable sponsored agreements 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. Equipment, capital expenditures, charges for patient care and

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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 (Title 2, CFR, Part 220, Appendix A).

The Health Science Center charged an incorrect indirect cost rate for 2 (3 percent) of 60 indirect cost charges tested. Both charges were for the same federal award. The Health Science Center set up the award incorrectly in its financial system. As a result, it charged an indirect cost rate of 46.5 percent of total direct costs, instead of 46.5 percent of modified total direct costs as required by the award agreement. In August 2012, the Health Science Center changed the indirect cost rate for the award in its financial system to 38.24 percent of total direct costs. However, that change did not fully correct the issue. The Health Science Center overcharged \$59 in indirect costs to Catalog of Federal Domestic Assistance (CFDA) 93.262, Award Number 2U54OH007541, and that amount was considered a questioned cost.

Additionally, for 1 (2 percent) of 60 indirect cost charges tested, the Health Science Center included an unallowable cost in the direct cost base it used to calculate the indirect cost charge. The unallowable cost was an \$12 late payment fee discussed in the direct (non-payroll) section above. As a result, the Health Science Center overcharged \$5 in indirect costs to CFDA 93.853, Award Number 5R01NS065842-03, and that amount was considered a questioned cost.

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 have sufficient controls over change management testing and migration for its Time and Effort application. Specifically, for 2 (67 percent) of 3 changes to the Time and Effort application tested, the Health Science Center did not maintain adequate documentation of its testing or final authorization prior to migrating those changes to the production environment. The Texas A&M University System’s change management policies, which govern the Health Science Center’s change management practices, require that documentation. Additionally, the Health Science Center did not adequately restrict developers’ access to modify code in the production environment for the Time and Effort application.

Insufficient change management procedures or inadequate segregation of duties among developers increases the risk of unauthorized programming changes being made to critical information systems.

The following awards were affected by the issue discussed above in which the Health Science Center charged unallowable late payment fees:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA 1-13-1-0003	October 22, 2012 to October 28, 2015	\$18
93.113	Environmental Health	7R21ES020055-02	January 25, 2012 to May 31, 2013	33
93.121	Oral Diseases and Disorders Research	7R01DE019471-04	December 1, 2011 to November 30, 2013	6
93.121	Oral Diseases and Disorders Research	7R01DE00509235	July 1, 2012 to June 30, 2014	166
93.121	Oral Diseases and Disorders Research	7R01DE018486-05	July 1, 2012 to June 30, 2014	53
93.121	Oral Diseases and Disorders Research	1R01DE02212901A1	August 15, 2012 to July 31, 2014	25

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.273	Alcohol Research Programs	7R01AA013440-10	September 1, 2012 to August 31, 2014	12
93.351	Research Infrastructure Programs	2P40OD011050-11	June 15, 2013 to May 31, 2014	18
93.351	Research Infrastructure Programs	7P40OD011050-10	June 1, 2012 to May 31, 2014	138
93.396	Cancer Biology Research	7R01CA134731-03	January 1, 2012 to December 31, 2013	11
93.396	Cancer Biology Research	7R01CA142862-03	June 1, 2012 to May 31, 2014	5
93.837	Cardiovascular Diseases Research	1K08HL11487701	July 1, 2012 to June 30, 2014	55
93.837	Cardiovascular Diseases Research	7R01HL090817-04	August 1, 2012 to July 31, 2014	10
93.837	Cardiovascular Diseases Research	7R01HL068838-07	December 1, 2011 to November 30, 2013	6
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	7R01AR044415-13	December 1, 2011 to November 30, 2013	11
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	1R01DK095118-01	May 1, 2012 to April 30, 2014	45
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS065842-03	April 1, 2012 to August 1, 2012	12
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01NS05478006	July 1, 2011 to December 31, 2012	7
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01S07489503	June 3, 2012 to May 31, 2014	27
93.855	Allergy, Immunology and Transplantation Research	12-062	March 1, 2012 to February 28, 2013	(26)
93.855	Allergy, Immunology and Transplantation Research	1R01AI095293-01A1	August 1, 2012 to July 31, 2014	12
93.855	Allergy, Immunology and Transplantation Research	5R01AI090142-02	August 20, 2012 to July 31, 2014	21
93.859	Biomedical Research and Research Training	5R01GM097591-03	August 1, 2012 to July 31, 2014	19

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.866	Aging Research	7R01AG042189-02	September 1, 2012 to May 31, 2014	6
93.867	Vision Research	7R01EY01842005	January 1, 2012 to December 31, 2013	<u>55</u>
Total				\$745

The following awards were affected by the issue discussed above in which the Health Science Center did not obtain certified time and effort reports in a timely manner:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.855	Allergy, Immunology and Transplantation Research	7R01AI098984-02	March 1, 2013 to June 30, 2014
12.351	Basic Scientific Research - Combating Weapons of Mass Destruction	HDTRA 1-13-1-0003	October 22, 2012 to October 28, 2015
93.837	Cardiovascular Diseases Research	7R01HL102314-03	July 1, 2012 to April 30, 2014
93.121	Oral Diseases and Disorders Research	R22091	December 1, 2011 to November 30, 2013
93.837	Cardiovascular Diseases Research	7R01HL102314-03	July 1, 2012 to April 30, 2014

The following awards were affected by the issue discussed above in which the Health Science Center incorrectly charged indirect costs:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS065842-03	April 1, 2012 to March 31, 2013	\$5
93.262	Occupational Safety and Health Program	2U54OH007541 CDC	September 30, 2011 to September 29, 2012	<u>59</u>
Total				\$64

Recommendations:

The Health Science Center should:

- Apply only allowable costs to federally funded awards.
- Monitor its departments to ensure they certify time and effort reports in accordance with its policy.
- Use the correct rate and direct cost basis to calculate indirect cost charges.
- Maintain documentation of all change requests related to critical information systems to support that changes were authorized, tested, and approved prior to migration to the production environment.

- Restrict access to modify code in the production environment for critical information systems to only those individuals who are authorized to perform such tasks.

Management Response and Corrective Action Plan:

Direct Cost (Non-Payroll) – The Texas A&M Health Science Center and Texas A&M System Sponsored Research Services acknowledge and agree with the finding. Texas A&M System Sponsored Research Services has reviewed the process and a procedure has been implemented to prevent charges of late payment fees from being charged on federal projects. Additional attributes have been assigned to the federal accounts to ensure the late payment fees are not charged on these accounts.

Implementation Date: October 2013

Responsible Person: Dana Thomas

Payroll Expenditures - The Texas A&M Health Science Center acknowledges and agrees with the finding. The Texas A&M Health Science Center will 1) retrain department administrators to ensure they are fully aware of their responsibility in the monitoring process; 2) meet with department heads and department administrators regarding time and effort information to be included in new faculty orientation to explain to faculty what their responsibility is with regard to time and effort certifications; and 3) run monthly reports on open time and effort certifications and notify department administrators to contact certifiers for a resolution.

Implementation Date: June 2014

Responsible Person: Julie A. Bishop

Indirect Costs – The Texas A&M Health Science Center and Texas A&M Sponsored Research Services acknowledge and agree with the finding. The overcharged indirect cost and associated late payment fee cited above have been refunded to the sponsor. Texas A&M System Sponsored Research Services is implementing a quality control program to ensure projects are established in the accounting system in accordance with the award documents and sponsor guidelines.

Implementation Date: June 2014

Responsible Person: Leo Paterra

General Controls – The Texas A&M Health Science Center and the Texas A&M University System acknowledge and agree with the finding. The Texas A&M University System is adding additional access controls to the source control and build system used by the Time and Effort application. This will restrict the building of production software release to only authorized employees. Additionally, the Texas A&M University System will implement better practices for the retention and management of documentation related to testing and authorization of changes in its production environment. Testing plans and results along with final authorization will be electronically captured and attached to each change item. The Texas A&M University system is also in the process of selecting and implementing a new service desk software application. If this software solution provides superior change management processes over the existing process, it will be adopted as the new change management solution.

Implementation Date: March 31, 2014

Responsible Person: Mark Schulz

Reference No. 2013-134

Cash Management

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs (Title 31, Code of Federal Regulations, Section 205.33(a)). To minimize the time between drawdown of federal funds and disbursement, the Texas A&M Health Science Center (Health Science Center) operates on a reimbursement basis under which it bases its drawdowns of federal funds only on expended amounts.

Questioned Cost: \$ 0

U.S. Department of Health and Human Services

The Health Science Center did not consistently ensure that it drew down the correct amounts of federal funds and, therefore, did not consistently minimize the time between drawdown and disbursement. Specifically:

- For 1 (4 percent) of 28 drawdowns tested, the Health Science Center based the draw request on a report that it used for the previous draw request. However, because the Health Science Center did not refresh its report query, it based the draw amount on a report that was 12 days old and included expenditures for which it had previously drawn funds. The total amount of the draw was \$465,257. The Health Science Center identified and corrected the error during the subsequent draw one week later. However, for a portion of the time between the draws, the Health Science Center had overdrawn federal funds. The potential interest obligation resulting from the inaccurate draw was less than the threshold for remitting interest to the federal government; therefore, there were no questioned costs.
- For 3 (11 percent) of 28 drawdowns tested, the Health Science Center included invalid expenditures in the draw. Those three draws each contained an award that exceeded its approved budget; therefore, the Health Science Center should not have drawn funds on those awards. For two of those draws, which were associated with the same award, the Health Science Center drew \$7,474 more than the approved budget for the award. For the other draw, the Health Science Center drew \$51,289 more than the approved budget for that award. The Health Science Center subsequently removed the overbudget amount from one award and later received additional funding for the other award; therefore there were no questioned costs.

The Health Science Center’s policy requires a multiple-level review and approval of each cash draw. However that review did not identify the errors noted above. Additionally, the Health Science Center has written policies and procedures for its cash draws, but those policies do not address any adjustments that the Health Science Center should make prior to submitting draw requests.

The following awards were affected by the issue discussed above in which the Health Science Center based a draw request on a report that it used for the previous draw request:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01NS05478006	July 1, 2011 to December 31, 2012
93.837	Cardiovascular Diseases Research	7R01HL068838-07	December 1, 2011 to November 30, 2013
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	7R01AR044415-13	December 1, 2011 to November 30, 2013

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.855	Allergy, Immunology and Transplantation Research	7R03AI09215302	December 1, 2011 to November 30, 2013
93.121	Oral Diseases and Disorders Research	7R01DE019471-04	December 1, 2011 to November 30, 2013
93.701	Trans-NIH Recovery Act Research Support	7RC2ES018789-03	September 1, 2011 to July 31, 2013
93.113	Environmental Health	7R01ES008263-14	September 1, 2011 to February 28, 2014
93.701	Trans-NIH Recovery Act Research Support	3R01ES008263-14S1	September 1, 2011 to August 31, 2012
93.113	Environmental Health	7R21ES020055-02	January 25, 2012 to May 31, 2013
93.867	Vision Research	7R01EY01842005	January 1, 2012 to December 31, 2013
93.396	Cancer Biology Research	7R01CA134731-03	January 1, 2012 to December 31, 2013
93.865	Child Health and Human Development Extramural Research	1R21HD06884101A1	January 1, 2013 to December 31, 2013
93.173	Research Related to Deafness and Communication Disorders	7R01DC009014-05	March 1, 2012 to February 28, 2014
93.837	Cardiovascular Diseases Research	5R01HL095786-04	February 1, 2012 to January 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R03NS07114102	February 1, 2012 to January 31, 2014
93.396	Cancer Biology Research	7R01CA096824-09	February 1, 2012 to January 31, 2014
93.173	Research Related to Deafness and Communication Disorders	7R01DC005606-10	April 1, 2012 to March 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS065842-03	April 1, 2012 to August 1, 2012
93.121	Oral Diseases and Disorders Research	7R01DE18885-04	April 1, 2012 to March 31, 2013
93.855	Allergy, Immunology and Transplantation Research	5R21AI095935	March 7, 2012 to February 28, 2014
93.866	Aging Research	7R01AG04136002	April 15, 2012 to March 31, 2014
93.855	Allergy, Immunology and Transplantation Research	7R01AI042345	April 1, 2012 to March 31, 2014

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	1R01DK095118-01	May 1, 2012 to April 30, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	7R01DK082435-03	May 1, 2012 to April 30, 2014
93.837	Cardiovascular Diseases Research	7K02HL098956-03	June 1, 2012 to May 31, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5K01DK081661-05	June 1, 2012 to May 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01S07489503	June 3, 2012 to May 31, 2014
93.396	Cancer Biology Research	7R01CA142862-03	June 1, 2012 to May 31, 2014
93.859	Biomedical Research and Research Training	7R01GM08406204	June 1, 2012 to May 31, 2014
93.213	Research and Training in Complementary and Alternative Medicine	7R21AT00625603	December 1, 2011 to September 29, 2013
93.121	Oral Diseases and Disorders Research	7R01DE00509235	July 1, 2012 to June 30, 2014
93.351	Research Infrastructure Programs	7P40OD011050-10	June 1, 2012 to June 14, 2013
93.121	Oral Diseases and Disorders Research	7R01DE018486-05	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	1R21AI101740-02	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	7U01AI082226-04	July 1, 2012 to June 30, 2013
93.837	Cardiovascular Diseases Research	7R01HL102314-03	July 1, 2012 to April 30, 2014
93.262	Occupational Safety and Health Program	2T03OH00410-04	July 1, 2012 to June 30, 2013
93.307	Minority Health and Health Disparities Research	7R01MD006228-03	July 4, 2012 to November 30, 2013
93.157	Centers of Excellence	D34HP24458	July 1, 2012 to June 30, 2013
93.837	Cardiovascular Diseases Research	5R21HL115463-02	July 10, 2012 to April 30, 2014
93.121	Oral Diseases and Disorders Research	1R01DE022975-01	July 11, 2012 to June 30, 2014

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	7R01DK062975-06	August 1, 2012 to July 31, 2014
93.866	Aging Research	7R01AG030578-05	August 1, 2012 to July 31, 2014
93.121	Oral Diseases and Disorders Research	7T32DE01838005	July 1, 2012 to June 30, 2014
93.856	Microbiology and Infectious Diseases Research	7R01AI20624-29	September 1, 2012 to August 31, 2014
93.855	Allergy, Immunology and Transplantation Research	1R56AI97372-01	August 1, 2012 to January 31, 2014
93.855	Allergy, Immunology and Transplantation Research	1R01AI095293-01A1	August 3, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	1K08HL11487701	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	7R01AI083646-04	September 1, 2012 to August 31, 2014
93.121	Oral Diseases and Disorders Research	7R03DE021773-02	September 1, 2012 to August 31, 2014
93.866	Aging Research	7R01AG042189-02	September 1, 2012 to May 31, 2014
93.273	Alcohol Research Programs	7R01AA013440-10	September 1, 2012 to August 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS077177-02	September 1, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	7R01HL096552-04	August 1, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	7R01HL090817-04	August 1, 2012 to July 31, 2014
93.855	Allergy, Immunology and Transplantation Research	5R21AI095788-02	September 13, 2012 to August 31, 2014
93.121	Oral Diseases and Disorders Research	1R01DE02212901A1	August 15, 2012 to July 31, 2014

The following awards were affected by the issue discussed above in the Health Science Center included invalid expenditures in draw requests:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.701	Trans-NIH Recovery Act Research Support	7RC2ES018789-03	September 1, 2011 to August 31, 2012

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CFDA

<u>No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.396	Cancer Biology Research	7RO1CA143811-03	January 1, 2012 to December 31, 2013

Recommendations:

The Health Science Center should:

- Adopt documented policies and procedures that outline its drawdown process.
- Strengthen its drawdown review and approval process to help ensure compliance with applicable laws and regulations and consistency in Health Science Center processes.

Management Response and Corrective Action Plan:

The Texas A&M Health Science Center and Texas A&M System Sponsored Research Services acknowledge and agree with the finding. Texas A&M System Sponsored Research Services (SRS) reviewed the internal Letter of Credit drawdown procedures and documented additional detail to ensure that all SRS accountants complete their drawdown requests accurately and that correct reports are available to the Coordinator and Director during their approval of the requests.

Implementation Date: October 2013

Responsible Person: Diane Hassel

Reference No. 2013-135

Period of Availability of Federal Funds

Research and Development Cluster

Award years – November 1, 2011 to July 30, 2012 and September 30, 2011 to November 13, 2012

Award numbers – CFDA 93.262, Occupational Safety and Health Program, 12-174-395071 and CFDA 93.061, Innovations in Applied Public Health Research, 1R43DP003339

Type of finding – Significant Deficiency and Non-Compliance

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 (CFR), 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, CFR, Section 215.71).

<p>Questioned Cost: \$ 0</p> <p>U.S. Department of Health and Human Services</p>
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The Texas A&M Health Science Center (Health Science Center) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. Specifically:

- For 1 (11 percent) of 9 transactions tested that were recorded after the end of the award period of availability, the Health Science Center did not incur the cost within the funding period. The Health Science Center incurred the \$264 cost associated with that transaction 157 days after the end of the funding period. The Health Science

Center later reversed the charge to CFDA 93.262 award number 12-174-395071 and refunded the sponsor; therefore, there were no questioned costs associated with that error.

- For an additional transaction tested, the Health Science Center did not liquidate the obligation within 90 days after the end of the funding period. The Health Science Center liquidated the \$1,800 obligation 120 days after the end of the funding period, but it did not request an extension or make the sponsor aware of additional outstanding charges for CFDA 93.061 award number 1R43DP003339.

The Health Science Center’s internal policy requires review and approval of all vouchers by Texas A&M System Sponsored Research Services. However, that review did not identify the errors discussed above.

Recommendation:

The Health Science Center should ensure that all costs it charges to federal awards are incurred within the period of availability and liquidated within required time frames.

Management Response and Corrective Action Plan:

The Texas A&M Health Science Center and Texas A&M Sponsored Research Services acknowledge and agree with the finding. Texas A&M System Sponsored Research Services has implemented a procedure which provides for the close out of federal projects within 90 days of the project termination date. This procedure includes liquidation of all outstanding obligations and the final invoice or financial report submission to the sponsor within 90 days.

Implementation Date: December 2013

Responsible Person: Mark Smock

Reference No. 2013-136

Reporting

Research and Development Cluster

Award years – January 25, 2012 to May 31, 2013 and January 15, 2013 to July 15, 2014

Award numbers – CFDA 93.113, Environmental Health, 7R21ES020055-02 and CFDA 93.853, Extramural Research Programs in the Neurosciences and Neurological Disorders, 7R21NS076426-03

Type of finding – Significant Deficiency and Non-Compliance

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations, Chapter 170). The subawards must be reported in the Transparency Act Subaward Reporting System (FSRS) no later than the last day of the month following the month in which the subaward obligation was made.

Questioned Cost: \$ 0
National Institutes of Health

For 2 (50 percent) of 4 subawards tested, the Texas A&M Health Science Center (Health Science Center) did not report the subaward within the required time frame. During its initial project setup, the Health Science Center did not identify those subawards as subject to the Transparency Act; therefore, the Health Science Center did not initially report those subawards in FSRS as required. As a result, the Health Science Center reported those subawards 171 and 353 days late. Not reporting subawards to FSRS within the required time frame decreases the reliability and availability of information to the awarding agency and other users of that information.

Recommendation:

The Health Science Center should report applicable subawards to FSRS within the required time frame.

Management Response and Corrective Action Plan:

The Texas A&M Health Science Center and Texas A&M System Sponsored Research Services acknowledge and agree with this finding. Texas A&M System Sponsored Research Services has implemented a new procedure to provide a secondary review of all subawards as they are executed to determine if FFATA reporting is required. Also, an existing procedure has been fortified to ensure all subawards are funneled through the Sub-recipient Monitoring Group to provide the required reporting in a timely manner.

Implementation Date: December 2013

Responsible Person: Michele Lacy

Reference No. 2013-137

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster – ARRA

Award year – September 1, 2011 to July 31, 2013

Award number – CFDA 93.701, Trans – NIH Recovery Act Research Support, 7RC2ES018789-03

Type of finding – Significant Deficiency and Non-Compliance

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 schedules of expenditures of federal awards information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Questioned Cost: \$ 0

U.S. Department of Health
and Human Services

For fiscal year 2013, the Texas A&M Health Science Center (Health Science Center) did not provide the required notifications to its one subrecipient of Recovery Act funds when it disbursed funds to that subrecipient. The award transitioned from the Texas A&M Research Foundation to the Health Science Center in July 2012, but the Health Science Center did not have a process to include the required information on Recovery Act subrecipient disbursements. Inadequate identification of Recovery Act information at the time of disbursements may lead to improper reporting of Recovery Act funds in subrecipients' schedules of expenditures of federal awards.

Recommendation:

The Health Science Center should provide all required information to its subrecipients of Recovery Act funds at the time of each disbursement.

Management Response and Corrective Action Plan:

The Texas A&M Health Science Center and Texas A&M System Sponsored Research Services acknowledge and agree with the finding. Texas A&M System Sponsored Research Services has reviewed its process to ensure that we are consistently notifying our subrecipients of required Recovery Act information at the time of disbursement. Additional training has been given to staff so that check stubs of future payments, if any, will include the following:

- *Federal Award number.*

- *CFDA number.*
- *Amount of ARRA recovery funds.*

Implementation Date: September 2013

Responsible Person: Dana Thomas

University of Texas at Austin

Reference No. 2013-176

Equipment and Real Property Management
(Prior Audit Issues 13-161 and 12-170)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

A recipient’s equipment records for equipment acquired with federal funds and federally owned equipment shall be maintained accurately and include all of the following: a description of the equipment; manufacturer’s serial number, model number, federal stock number, national stock 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.

Questioned Cost: \$ 0

Los Alamos National
Laboratory
National Science Foundation
U.S. Department of Energy
U.S. Department of Defense

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 causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas at Austin’s (University) *Handbook of Business Procedures* requires that an inventory tag with a bar code be affixed to new equipment items that are capitalized (items with a unit cost of \$5,000 or more) or controlled (certain items with a unit cost of \$500 to \$4,999.99).

The University did not always maintain adequate property records for or adequately safeguard its equipment items. For 8 (13 percent) of 63 equipment items tested, the University’s property records were inaccurate or the University did not adequately safeguard the equipment by affixing inventory tags to the items in accordance with its policy. Specifically:

- For two items, the University’s property records did not accurately reflect the items’ current locations. The property records for one of those items also did not accurately reflect the transfer of that item to another higher education institution.
- For two items, the University’s property records did not contain a condition code. For two items, the University’s property records did not contain the correct inventory tag numbers. The property records for one of those items also did not accurately reflect the item’s current location.
- For two items, the University had not affixed an inventory tag or had not affixed a permanent inventory tag.

In addition, 1 (2 percent) of the 63 equipment items auditors attempted to test was a supercomputer that the University had recorded in its property records with a single inventory tag number and descriptions of multiple components of that supercomputer. When auditors observed that supercomputer, it did not have an inventory tag affixed to it and some of the components of that supercomputer were missing. The University asserted that it had transferred the missing components, but it did not complete the required transfer paperwork. The University also asserted that the inventory tag for that supercomputer had been affixed to one of the components that it had transferred.

The errors above occurred as a result of weaknesses in the University’s inventory and record-keeping processes. Not properly maintaining property records and tagging equipment items increases the risk that assets may be lost or stolen.

UNIVERSITY OF TEXAS AT AUSTIN

The issues above affected the following awards:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.000	Department of Defense	F49620-93-I-0307	May 1, 1993 to May 31, 1998
47.041	Engineering Grants	ECCS-0925217	June 3, 2009 to August 31, 2013
47.041	Engineering Grants	CMMI - 1031106	September 1, 2010 to August 31, 2013
47.078	Polar Programs	OPP-9319379	July 1, 1994 to January 31, 2001
47.080	Office of Cyberinfrastructure	OCI-0622780	October 1, 2006 to September 30, 2013
81.000	Los Alamos National Lab	79506-001-10	July 9, 2010 to September 30, 2014
81.049	Office of Science Financial Assistance Program	DE-FG05-88ER53267	January 1, 1988 to April 30, 1994
81.049	Office of Science Financial Assistance Program	DE - FG05-91ER12119	April 1, 1991 to May 31, 1995
81.089	Fossil Energy Research and Development	DE-FE0005917, Mod. 001	October 1, 2010 to December 31, 2013

Recommendations:

The University should:

- Strengthen controls to ensure that it maintains accurate and complete property records.
- Strengthen controls to ensure that it tags all capitalized and controlled equipment items and completes all required equipment transfer documentation.
- Develop and implement controls to adequately safeguard equipment from loss, damage, or theft.

Management Response and Corrective Action Plan:

The University concurs with the results. Management is committed to improving controls over property record administration at the institutional and departmental levels. This commitment is demonstrated through on-going efforts such as departmental spot reviews, on-going training, and year-around communication. These findings will be shared with the appropriate institutional personnel and Inventory Services will lead a combined institutional and departmental effort to investigate, identify, and implement process improvements to the overall controls over property management.

Implementation Date: August 2014

Responsible Person: Janie Kohl

Reference No. 2013-177

Procurement and Suspension and Debarment

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – July 25, 2012 to July 24, 2016; September 1, 2009 to August 31, 2014; May 1, 2010 to April 30, 2015; July 21, 2011 to July 20, 2014; June 15, 2012 to September 14, 2013; September 30, 2009 to August 31, 2012; August 1, 2009 to July 31, 2014; April 15, 2012 to March 31, 2014; October 1, 2012 to December 31, 2013; July 21, 2011 to July 20, 2014; and September 5, 2012 to March 4, 2014

Award numbers – CFDA 43.001, Science, NNX12AL65G; CFDA 12.431, Basic Scientific Research, W911NF-09-1-0434; CFDA 12.800, Air Force Defense Research Sciences Program, FA9550-10-1-0182; CFDA 12.300, Basic and Applied Scientific Research, N00024-07-D-6200 and N00012-12-1-1058; CFDA 93.701, Trans-NIH Recovery Act Research Support, 1 P30 MH089900-02; CFDA 47.049, Mathematical and Physical Sciences, DMR-0423914 pass-through from Case Western Reserve University; CFDA 47.050, Geosciences, EAR-1053446; and CFDA 43.009, Cross Agency Support, NNX12AQ99G

Type of finding – Significant Deficiency and Non-Compliance

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 and its principals are not suspended, debarred, or otherwise excluded from federal contracts. Covered transactions include procurement contracts for goods and services that are expected to equal \$25,000 or more and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210 through 180.220 and 180.970).

<p>Questioned Cost: \$ 0</p> <p>National Aeronautics and Space Administration</p> <p>U.S. Department of Defense</p> <p>U.S. Department of Health and Human Services</p> <p>National Science Foundation</p>
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The University of Texas at Austin (University) did not always verify that its vendors’ principals were not suspended or debarred or otherwise excluded from participating in federal contracts. Specifically, for 10 (67 percent) of 15 covered transactions tested, the University did not verify whether any of the vendor’s principals were suspended or debarred. The University had a process to verify whether the vendors themselves were suspended or debarred from federal contracts, but it did not have a consistent process to verify whether the vendors’ principals were suspended or debarred. Not verifying that its vendors’ principals are not suspended or debarred from federal contracts increases the risk that the University could enter into procurements with ineligible vendors.

Recommendation:

The University should revise its procurement processes to include verifying the suspension and debarment status of its vendors’ principals when required.

Management Response and Corrective Action Plan:

The University will update the Handbook of Business Procedures (HBP) to reflect new requirements for debarment checks for vendors’ principals.

Implementation Date: April 2014

Responsible Person: Jennifer Deleon

University of Texas at El Paso

Reference No. 2013-178

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Material Non-Compliance

Payroll Distributions

The distribution of salaries and wages, whether treated as direct or facilities and administrative costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. 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 (Title 2, Code of Federal Regulations (CFR) Section 220, Appendix A (J)(10)(b)). For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, reports will be prepared no less frequently than monthly and coincide with one or more pay periods (Title 2, CFR, Section 220, Appendix A (J)(10)(c)).

Questioned Cost: \$ 30,669

Environmental Protection Agency
National Aeronautics and Space Administration
National Science Foundation
U.S. Department of Commerce
U.S. Department of Defense
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Agency for International Development

The University of Texas at El Paso (University) requires timesheets for hourly employees and effort certifications for salaried employees. The University completes effort certifications twice each year for the periods of September 1 through February 28 and March 1 through August 31. The University’s process is to begin the certification process 45 days after the certification period ends.

The University was unable to provide documentation to support its payroll distribution for 30 (48 percent) of 62 payroll transactions tested. Specifically:

- The University did not require salaried students to complete effort certifications. As a result, auditors could not verify whether the salaried students associated with 18 (29 percent) of 62 payroll transactions committed effort to the awards from which they were paid. The payroll transactions tested for those 18 salaried students totaled \$22,467. Payroll transactions for other salaried students also were potentially affected by that issue.
- The University was not able to provide adequate documentation to support employees’ payroll distributions for 12 (19 percent) of 62 payroll transactions tested. Effort certifications, timesheets, payroll documents, and appointment information the University provided for employees associated with those 12 transactions did not support the payroll distributions for those transactions. As a result, auditors were unable to verify whether those 12 payroll transactions, which totaled \$10,297, represented actual payroll costs. The University subsequently provided effort certifications for an employee associated with one of those 12 transactions; therefore, there were no questioned costs associated with that \$2,095 transaction. However, the certification for that transaction was not completed in a timely manner. The University did not begin the certification process for the period covering that transaction (March 1, 2013, through August 31, 2013) until November 15, 2013, which was 76 days after the certification period ended.

Indirect Costs

Indirect costs are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. Indirect costs shall be distributed to applicable sponsored agreements 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. 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 (Title 2, CFR, Part 220, Appendix A, G.2).

For 1 (2 percent) of 60 indirect cost charges tested, the University charged an incorrect indirect cost rate. The University set up a federal award incorrectly in its financial system. As a result, it overcharged \$3,916 in indirect costs to that award. The University corrected that error and transferred the indirect charges to an institutional account; therefore, there were no questioned costs.

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 maintain adequate user access controls over its Effort Certification & Reporting Technology (ECRT) application. Specifically, the University had a generic ECRT user account with high-level system administrator access that was no longer necessary. The University removed access for that account during the audit. The existence of unnecessary generic accounts with high-level system administrator access increases the risk of inappropriate and unauthorized changes to applications.

In addition, the University did not maintain evidence that it conducted formal, periodic reviews of access to ECRT to determine the appropriateness of users' access based on their job responsibilities. That increases the risk of inappropriate access.

The following awards were affected by the issue discussed above involving the University's inability to provide documentation to support payroll distributions:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
11.611	Manufacturing Extension Partnership	26-2403-18-62, pass-through from the University of Texas at Arlington	September 1, 2012 to August 31, 2013	\$ 0
12.431	Basic Scientific Research	W911NF-07-2-0027, pass through from Stanford University	April 1, 2013 to December 31, 2013	1,530
12.630	Basic, Applied, and Advanced Research in Science and Engineering	W911NF-11-1-0129	April 11, 2011 to April 10, 2014	837
12.800	Air Force Defense Research Sciences Program	FA9550-12-1-0475, pass-through from Iowa State University	September 30, 2012 to September 29, 2013	2,000
12.800	Air Force Defense Research Sciences Program	FA9550-12-1-0457	September 30, 2012 to November 29, 2015	443

UNIVERSITY OF TEXAS AT EL PASO

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
43.002	Aeronautics	NNX09AV09A	October 1, 2009 to September 30, 2014	2,106
47.041	Engineering Grants	HRD-0734825	August 1, 2010 to August 31, 2013	5
47.049	Mathematical and Physical Sciences	0518-G-KB563, pass-through from the University of California, Los Angeles	September 1, 2010 to August 31, 2014	1,222
47.049	Mathematical and Physical Sciences	DMR-1205302	June 1, 2012 to May 31, 2017	693
47.049	Mathematical and Physical Sciences	CHE-1110967	July 1, 2011 to June 30, 2014	363
47.050	Geosciences	EAR-0847499	March 1, 2009 to May 31, 2014	1,575
47.050	Geosciences	EAR-1009695-003	May 1, 2011 to April 30, 2015	1,593
47.050	Geosciences	EAR-1113703	September 1, 2011 to August 31, 2014	1,866
47.070	Computer and Information Science and Engineering	IIS-0829683	April 17, 2009 to August 31, 2014	1,297
47.076	Education and Human Resources	HRD-0734825	September 1, 2007 to August 31, 2013	4,570
47.076	Education and Human Resources	HRD-1242122	September 1, 2012 to August 31, 2017	1,917
47.082	Trans-NSF Recovery Act Research Support	ARC-0909502	September 1, 2009 to August 31, 2013	107
66.000	Environmental Protection Agency	Contract 582-13-30518, pass through from Texas Commission on Environmental Quality	September 1, 2012 to August 31, 2013	388
66.202	Congressionally Mandated Projects	EM-83486101-01	September 1, 2010 to May 31, 2013	1,825
84.367	Improving Teacher Quality State Grants	S367B110038, pass-through from Texas Higher Education Coordinating Board	February 1, 2012 to April 30, 2014	16
93.307	Minority Health and Health Disparities Research	5P20MD002287-05	July 1, 2011 to June 30, 2014	1,200

UNIVERSITY OF TEXAS AT EL PASO

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.837	Cardiovascular Diseases Research	1SC2HL107235-01	August 1, 2010 to December 31, 2013	125
93.855	Allergy, Immunology and Transplantation Research	5R01AI095667-02	July 1, 2011 to June 30, 2014	1,833
93.859	Biomedical Research and Research Training	2R25GM069621-09	April 1, 2012 to March 31, 2014	1,833
93.859	Biomedical Research and Research Training	5R25GM049011-13	September 1, 2009 to June 30, 2014	4
98.001	USAID Foreign Assistance for Programs Overseas	AID-497-A-12-00008	March 18, 2012 to March 31, 2015	<u>1,321</u>
Total				\$30,669

The following award was affected by the issue discussed above in which the University incorrectly charged indirect costs:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
47.076	Education and Human Resources	DUE-0926721	September 1, 2009 to August 31, 2013

Recommendations:

The University should:

- Require all employees to complete after-the-fact effort confirmations or determinations.
- Ensure that employees' after-the-fact effort confirmations or determinations accurately reflect employee effort and payroll costs that it charges to federal grants.
- Strengthen controls to ensure that each indirect cost rate and base it enters in its financial system is accurate.
- Ensure that all ECRT accounts are necessary and authorized.
- Document its periodic user access reviews and related corrective actions, including the removal of unused user accounts.

Management Response and Corrective Action Plan:

- *The requirement was put into place November 13, 2013 that all employees complete after the fact confirmation or determination for the past period of 03/01/13 through 08/31/13 and for all future periods.*
- *New review and validation processes were put into place June 2013 including, adding additional staff to support the process, contacting other system schools for information, communicating with a 3rd party system provider to improve review and validation processes, and initiating the upgrade of ECRT from version 2.3.3. to 4.5 which should eliminate many of the system problems. The anticipated implementation of the upgrade is 09/01/2014.*

- *UTEP is one of the UT System schools converting from its current financial system (Define) to PeopleSoft. Define does not have the flexibility to utilize all the different indirect cost basis and rates imposed by the various federal agencies. However, with PeopleSoft (go live date 05/01/2014) it is anticipated that many of the limitations that are currently part of a manual process will be automated, therefore, mitigating risks of applying incorrect indirect cost basis and rates.*
- *Processes for review and update of ECRT access and roles were initiated 09/30/13. The review processes will continue on a quarterly basis to coincide with the UTEP's quarterly effort certification compliance reporting.*
- *Processes for periodic review and update of ECRT access and roles will be documented and include removal of unused user accesses.*

Implementation Date: September 2014

Responsible Person: Manuela D. Dokie

Reference No. 2013-179

Cash Management

Research and Development Cluster

Award years – August 23, 2010 to November 22, 2012 and December 5, 2011 to October 31, 2013

Award numbers – CFDA 12.351, Basic Scientific Research – Combating Weapons of Mass Destruction, HDTRA1-10-1-0096 and CFDA 43.001, Science, NNX09AV17A pass-through from United Negro College Fund Special Programs Corporation

Type of finding – Significant Deficiency and Non-Compliance

Recipients shall maintain advances of federal funds in interest-bearing accounts unless: (1) The recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22 (k)). For those entities for which the Cash Management Improvement Act (CMIA)

Questioned Cost: \$ 0

U.S. Department of Defense
National Aeronautics and
Space Administration

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, 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 at El Paso (University) did not maintain advances of federal funds in interest-bearing accounts. The University has not established a process to maintain advances of federal funds in interest-bearing accounts. The University identified 41 awards that potentially received advances of federal funds according to its records. Auditors reviewed 11 of those awards and determined that 2 of them required advances of funds to be maintained in interest-bearing accounts. The University received federal funds in advance of expenditures for both of those awards, but it did not maintain the funds in interest-bearing accounts. If the University does not maintain advances in interest-bearing accounts, it cannot earn or remit to the federal government interest exceeding \$250 per year on funds it received in advance of expenditures. Other federal awards also were potentially affected by this issue.

Recommendation:

The University should:

- Maintain advances of federal funds in interest-bearing accounts.
- Develop and implement procedures to calculate and remit interest payments to the federal government when federal funds are credited to its accounts before it uses those funds.

Management Response and Corrective Action Plan:

- UTEP will ensure that all federal advance funds are maintained in an interest bearing account unless in accordance with 2 CFR, Section 215.22 (k.2) “the best reasonable available interest bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balance”.
- UTEP will develop and implement procedures to comply with CMIA 31 CFR 205.15 and 2 CFR Section 215.22, where the process will be applied for the next required reimbursement date of 09/30/2014.

Implementation Date: September 2014

Responsible Person: Manuela D. Dokie

Reference No. 2013-180

Period of Availability of Federal Funds

Research and Development Cluster

Award years – August 23, 2010 to November 22, 2012; December 1, 2008 to November 30, 2012; and September 15, 2007 to August 31, 2012

Award numbers – CFDA 12.351, Basic Scientific Research-Combatting Weapons of Mass Destruction, HDTRA1-10-1-0096; CFDA 47.070, Computer and Information Science and Engineering, CNS-0837556; and CFDA 47.078, Polar Programs, ARC-0732885

Type of finding – Significant Deficiency and Non-Compliance

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 preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations (CFR), 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, CFR, Section 215.71).

Questioned Cost: \$ 0
National Science Foundation U.S. Department of Defense

The University of Texas at El Paso (University) did not always liquidate its obligations within the required time frame. For 9 (75 percent) of the 12 transactions tested that the University recorded after the end of the award period of availability, the University did not liquidate the obligations within 90 days after the end of the funding period or request an extension from the sponsor. The University liquidated the obligations associated with those 9 transactions, which totaled \$52,995, between 95 and 257 days after the end of the funding period. The University does not have a sufficient process to follow up on outstanding invoices or to request an award close-out extension from the sponsor to ensure that it liquidates funds within required time frames. Without that process, the University could spend federal funds improperly, which could affect its ability to obtain future research and development funding.

Recommendation:

The University should liquidate its obligations within the required time frames or request extensions from its sponsors.

Management Response and Corrective Action Plan:

The University will liquidate its obligations within the required timeframe and document approvals from funding agencies if liquidation of such obligations is outside the 90-day window.

Implementation Date: September 2014

Responsible Person: Manuela D. Dokie

Reference No. 2013-181

Reporting

Research and Development Cluster

Award years – April 2, 2012 to April 1, 2016; March 1, 2013 to February 29, 2016; August 15, 2012 to July 31, 2017; June 1, 2012 to May 31, 2017; and March 18, 2012 to March 31, 2015

Award numbers – CFDA 17.268, H-1B Job Training Grant, HG-22730-12-60-A-4; CFDA 12.800, Air Force Defense Research Sciences Program, FA9550-13-1-00081; CFDA 47.076, Education and Human Resources, HRD-1202008; CFDA 47.076, Education and Human Resources, DMR-1205302; and CFDA 98.001, USAID Foreign Assistance for Programs Overseas, AID-497-A-12-00008

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). The U.S. Department of Labor requires recipients to submit the Financial Status Report ETA-9130 to report financial activity. The Department of Labor provides specific instructions for completing the ETA-9130, including definitions and requirements of key reporting elements.

Questioned Cost: \$ 0 U.S. Department of Labor U.S. Department of Defense National Science Foundation Agency for International Development

The University of Texas at El Paso (University) did not ensure that 1 (2 percent) of 60 financial reports was accurate and complete. Specifically, for CFDA 17.268 award HG-22730-12-60-A-4, the University:

- Reported federal expenses for the award on the cash basis instead of the accrual basis. As a result, the University understated the federal share of expenditures on the report by \$16,227.
- Did not report \$35,747 in indirect costs in total administrative expenditures.
- Did not report the total recipient share required for the full period of the award. The University reported only the \$891,661 recipient share required for two years of the four-year grant. The total recipient share required for the award was \$1,995,940, resulting in a \$1,104,079 understatement of the total recipient share required.

Because the reporting elements discussed above are used to calculate other elements in the report, the University also incorrectly reported the total federal obligations, unobligated balance of federal funds, and remaining recipient share to be provided. The University did not identify those errors due to a manual error in its financial report review process. Inaccurate and incomplete information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

Federal Funding Accountability and Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding their first-tier subawards that exceed \$25,000. The prime recipient is required to report subaward information through the Federal Funding Accountability and Transparency Subaward Reporting System by the end of the month following the month in which the subaward was signed (Title 2, CFR, Chapter 170).

The University did not always ensure that Transparency Act reports were supported by applicable accounting or performance records, or that they were submitted in a timely manner. Specifically:

- For 6 (67 percent) of 9 reports tested, the University did not report some of the data elements included in the reports accurately. For five of those reports, the University did not report the obligation date accurately. For two of those five reports, the errors occurred because the University reported the dates that the University signed the subawards, rather than the dates on which the University and the subrecipient both signed the subawards. For three of those five reports, those errors occurred because the University reported the beginning date of the subawards, rather than the dates the subaward agreements were signed. As a result, the University reported obligation dates for those five subawards ranging from 14 to 81 days before both parties signed the subawards. For one of those reports, the University overstated the subaward amount by \$440,730. The amount of the subaward was \$48,968; however, the University reported \$489,698 due to a manual error.
- For 7 (78 percent) of 9 reports tested, the University submitted the reports between 1 and 10 months late because it fell behind in submitting subaward information for Transparency Act reporting.

Not reporting subawards within the required time frames decreases the reliability and availability of information to the awarding agency and other users of that information.

Recommendations:

The University should:

- Submit financial reports that are accurate and complete.
- Submit Transparency Act reports that are accurate and supported by applicable accounting or performance records, and submit those reports in a timely manner.

Management Response and Corrective Action Plan:

- *UTEP will endeavor to submit accurate and complete financial reports. With implementation of PeopleSoft, a functionality within the system will be activated which allows for email reminders to be sent to individuals responsible for preparing and submitting financial reports.*
- *UTEP developed processes and dedicated support staff to sustain FFATA reporting as of June 2013. Effort is continuing to improve on the timeliness of FFATA reporting and elimination of manual input to mitigate risks of error.*

Implementation Date: September 2014

Responsible Person: Manuela D. Dokie

University of Texas Health Science Center at San Antonio

Reference No. 2013-182

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Indirect costs are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. Indirect costs shall be distributed to applicable sponsored agreements 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. 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 (Title 2, Code of Federal Regulations, Part 220, Appendix A, G.2).

Questioned Cost: \$ 0

National Aeronautics and
Space Administration
National Science Foundation
U.S. Department of Defense
U.S. Department of Health and
Human Services

For 1 (2 percent) of 60 indirect cost transactions tested, the University of Texas Health Science Center at San Antonio (Health Science Center) charged an incorrect indirect cost rate. The Health Science Center set up a federal award incorrectly in its financial system. As a result, it overcharged \$251 in indirect costs to that award. The Health Science Center corrected the error and transferred the indirect charges to an institutional account; therefore, there were no questioned costs.

Additionally, the Health Science Center incorrectly included capital equipment and other capital expenditures in the modified total direct cost base it used to calculate indirect cost charges. During fiscal year 2013, the modified total direct cost table in the Health Science Center’s financial system did not exclude the object codes for capital equipment and other capital expenditures from the indirect cost calculations. As a result, the Health Science Center incorrectly charged \$197,890 in indirect costs to 34 federal awards. The Health Science Center subsequently revised its indirect cost table and removed the incorrect charges from all awards affected; therefore, there were no questioned costs.

The issues discussed above affected the following awards:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.420	Military Medical Research and Development	W81XWH-08-2-0110	September 1, 2008 to August 31, 2015
43.003	Exploration	NNX12AC32G	April 1, 2012 to March 31, 2015
47.074	Biological Sciences	IOS-1147467	August 15, 2011 to October 31, 2013
93.113	Environmental Health	1 R01 ES022057-01	August 23, 2012 to April 30, 2017
93.213	Research and Training in Complementary and Alternative Medicine	5 K99 AT006704-02	August 1, 2011 to April 30, 2013

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT SAN ANTONIO

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.213	Research and Training in Complementary and Alternative Medicine	1 R01 AT006885-01A1	January 1, 2013 to December 31, 2017
93.242	Mental Health Research Grants	2 R01 MH076929-06A1	September 12, 2012 to July 31, 2017
93.242	Mental Health Research Grants	5 R01 MH090067-03	July 1, 2010 to June 30, 2015
93.279	Drug Abuse and Addiction Research Programs	5 R01 DA005018-24	February 1, 2010 to January 31, 2015
93.279	Drug Abuse and Addiction Research Programs	1 R01 DA032701-01A1	March 1, 2013 to November 30, 2017
93.389	National Center for Research Resources	8R24OD010933-03	March 1, 2010 to February 28, 2014
93.389	National Center for Research Resources	8 KL2 TR000118-05	May 19, 2008 to April 30, 2014
93.394	Cancer Detection and Diagnosis Research	ISG 5 U01 CA86402-13	July 1, 2010 to June 30, 2015
93.395	Cancer Treatment Research	7 R01 CA069065-15	October 1, 2011 to May 31, 2014
93.397	Cancer Centers Support Grants	7U54 CA113001-08	March 1, 2012 to February 28, 2015
93.397	Cancer Centers Support Grants	1 P20 CA165589-01A1	September 14, 2012 to August 31, 2016
93.837	Cardiovascular Diseases Research	5 R01 HL102310-03	July 1, 2010 to June 30, 2014
93.837	Cardiovascular Diseases Research	5 R01 HL085742-04	March 18, 2008 to February 28, 2014
93.837	Cardiovascular Diseases Research	1 R01 HL115858-01	July 16, 2012 to April 30, 2016
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	2 R56 DK069930-06	September 1, 2012 to June 30, 2013
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5 R01 DK079195-04	August 15, 2008 to February 28, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	1 R01 DK096119-01	July 1, 2012 to June 30, 2016
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5 R01 DK087460-03	June 1, 2010 to May 31, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5 R01 DK079996-03	July 1, 2010 to June 30, 2015
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01 NS050627-05	April 14, 2006 to March 31, 2013

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01 NS043394-11	June 1, 2011 to May 31, 2015
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7 R01 NS050356-07	August 1, 2012 to November 30, 2016
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01 NS062811-03	February 1, 2010 to January 31, 2015
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1 R01 NS082746-01A1	June 1, 2013 to April 30, 2018
93.855	Allergy, Immunology and Transplantation Research	5 R01 AI083387-03	June 1, 2010 to May 31, 2015
93.855	Allergy, Immunology and Transplantation Research	5 R01 AI078972-04	January 23, 2009 to December 31, 2013
93.855	Allergy, Immunology and Transplantation Research	ISG 5 U19 AI070412-07	August 1, 2011 to July 31, 2016
93.859	Biomedical Research and Research Training	5 R01 GM047291-20	February 1, 2009 to July 31, 2013
93.866	Aging Research	ISG 5 P30 AG013319-18	September 1, 2011 to June 30, 2015
93.866	Aging Research	5 P30AG013319-18	September 1, 2011 to June 30, 2015

Recommendations:

The Health Science Center should:

- Use the approved rate to calculate indirect costs.
- Exclude capital equipment and other capital expenditures from modified total direct costs when it calculates indirect costs.

Management Response and Corrective Action Plan:

We concur with the recommendations and, as noted, have already put into place the appropriate changes to ensure that neither of these issues recurs. With respect to the use of the incorrect F&A rate, this was simply human error. We do have a review process in place that should prohibit the error to happen again. With respect to F&A on capital equipment, we have reconfigured our PeopleSoft enterprise controls to explicitly delete these expenses for the F&A charged to a project.

Implementation Date: January 2014

Responsible Person: Chris Green

Reference No. 2013-183

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

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.

Questioned Cost: \$ 0
U.S. Department of Defense National Institutes of Health

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 causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (Title 2, Code of Federal Regulations, Section 215.34(f)).

The University of Texas Health Science Center at San Antonio’s (Health Science Center) *Handbook of Operating Procedures* (Handbook) states that all new equipment costing \$5,000 or more and items defined by the Texas Comptroller of Public Accounts as “controlled” items and costing \$500 or more will be tagged with an inventory number and placed on the official property records. The Handbook also states that the Health Science Center will take a physical inventory of its assets annually. During the annual inventory, the Health Science Center provides all departments with a list of property to compare to the physical inventory, and the departments are required to report any exceptions to the Health Science Center’s Property Control Department.

The Health Science Center did not maintain accurate and complete property records for 11 (17 percent) of 65 equipment items tested. Specifically:

- For four items, the Health Science Center did not correctly record the serial numbers in its property records.
- For two items, the Health Science Center did not correctly record the current location in its property records. The department responsible for one of those items moved the item in May 2013, but it did not notify the Property Control Department of the location change. The Health Science Center was initially unable to locate the other item because the item’s actual location differed from the location listed in the property records; however, it subsequently located that item.
- For two items, the Health Science Center did not record accurate descriptions of the items in its property records.
- For one item, the inventory tag number affixed to the item did not match the tag number assigned to that item in the Health Science Center’s property records.
- For one item, the Health Science Center did not record a serial number in its property records. In addition, the Health Science Center did not correctly record the item’s location in its property records. The department responsible for that item moved the item in May 2013, but it did not notify the Property Control Department of the location change.
- For one item, the Health Science Center did not correctly record the serial number, and it did not record an accurate description of the item in its property records.

In addition, the Health Science Center did not affix an inventory tag number to 1 (2 percent) of 65 equipment items.

The errors discussed above occurred as a result of weaknesses in the Health Science Center’s record keeping and annual inventory processes. As noted above, departments moved two of the items in May 2013, but they did not notify the Property Control Department of the location changes. The departments also did not report the other errors discussed above to the Property Control Department when they performed the annual inventory in fiscal year 2013. Not maintaining complete and accurate property records and not tagging equipment items could result in non-traceable, missing, lost, or stolen equipment.

The issues above affected the following awards:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.000	Not applicable	HR0011-07-C-0027	January 15, 2007 to September 30, 2011
93.866	Aging Research	U01 AG022307	April 15, 2004 to August 31, 2009
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	19057/00025154	April 1, 2006 to March 31, 2012
93.121	Oral Diseases and Disorders Research	R01DE11381	October 1, 1994 to September 30, 1999
93.121	Oral Diseases and Disorders Research	5 R01 DE11005-04	July 1, 1996 to June 30, 2002
93.121	Oral Diseases and Disorders Research	R21 DE15590	September 28, 2004 to June 30, 2007
93.393	Cancer Cause and Prevention Research	R01 CA138627	September 2, 2010 to June 30, 2015
93.371	Biomedical Technology	1S10RR15883-01	March 1, 2001 to February 28, 2002
93.242	Mental Health Research Grants	R01 MH074457	September 1, 2010 to March 31, 2015
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	R01 DK077639	October 1, 2006 to August 31, 2011
93.859	Biomedical Research and Research Training	R01 GM55372	January 1, 2002 to December 31, 2006

Recommendations:

The Health Science Center should:

- Maintain accurate and complete property records for its equipment.
- Tag all capitalized and controlled equipment in accordance with its policy.

Management Response and Corrective Action Plan:

We concur with the findings and recommendations of the A-133 auditors regarding Equipment and Real Property Management. We wish to note that all 65 items tested were found, attesting to the overall adequacy of our asset controls and records. Acknowledging the need for improvement indicated by this audit, we have trained Asset Management staff regarding the need to accurately record the required data for asset additions (including, but not

limited to, serial number, tag number and item description), and to accurately maintain an up-to-date listing of asset locations. Effective immediately, we have improved our annual inventory process to verify asset locations by physically scanning the bar codes on inventory tags affixed to equipment items. This procedure provides a detailed electronic audit trail verifying asset locations. We have also implemented additional QC processes to verify asset locations and serial numbers.

Implementation Date: January 2014

Responsible Person: Ralph Kaster

University of Texas M.D. Anderson Cancer Center

Reference No. 2013-184
Cash Management
(Prior Audit Issue 13-169)

Research and Development Cluster
Award year – September 4, 1998 to June 30, 2013
Award number – CFDA 93.397, Cancer Centers Support Grants, 5 P30 CA016672
Type of finding – Material Weakness and Material Non-Compliance

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)).

Questioned Cost: \$ 0
National Institutes of Health

To minimize the time elapsing between drawdown and disbursement of federal funds, the University of Texas M.D. Anderson Cancer Center (Cancer Center) operates on a reimbursement basis under which its drawdowns should be based only on expended amounts. However, during fiscal year 2013, the Cancer Center:

- **Did not have adequate controls to ensure that its drawdowns of federal funds were based only on paid amounts.**
- **Executed federal cash draws based, in part, on unpaid expenditures.**
- **Did not provide adequate documentation at the individual award level to support the amounts of federal funds that it drew down.**

Because of those issues, auditors were unable to determine whether the Cancer Center drew down the appropriate amounts of federal funds for fiscal year 2013. As a result, auditors also were unable to determine whether any questioned costs were associated with those issues. Those issues affected the Cancer Center’s drawdowns for all of its National Institutes of Health awards. The Cancer Center receives a large number of awards from the National Institutes of Health, but because auditors were unable to identify the specific awards affected by those issues, auditors have associated this finding with one of the Cancer Center’s largest awards.

The weaknesses in controls and supporting documentation are related to the Cancer Center’s implementation of a new accounting system in September 2012. In January 2013, the Cancer Center determined that the automated process it had been using to determine drawdown amounts erroneously included deferred payments (obligations that the Cancer Center had not yet paid). The Cancer Center’s subsequent attempt to correct that automated process and to determine drawdown amounts through a manual process also resulted in additional adjustments that it needed to make in its drawdown amounts.

The Cancer Center stopped drawing down federal funds from May 2013 through July 2013, while it worked on a solution for the error in its new accounting system. The Cancer Center asserted that, when it resumed drawing down federal funds in August 2013, the error had been corrected. The Cancer Center also asserted that, because it did not draw down federal funds in each month of the year, its total drawdowns during fiscal year 2013 did not exceed total expended amounts.

Recommendations:

The Cancer Center should:

- **Develop and implement a process that will enable it to base its drawdowns of federal funds only on expended amounts.**

- Retain supporting documentation that contains sufficient detail to tie award-level expenditures to each drawdown.

Management Response and Corrective Action Plan:

The Cancer Center developed and implemented a process that enables us to base the drawdown on expended and paid amounts only. The Cancer Center maintains supporting documentation which contains sufficient detail for each drawdown.

Implementation Date: August 2013

Responsible Person: Claudia Delgado

Reference No. 2013-185

Reporting

(Prior Audit Issue 13-171)

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Non-Compliance

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that equal or exceed \$25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, Code of Federal Regulations (CFR), Chapter 170).

Questioned Cost: \$ 0

National Aeronautics and
Space Administration
National Institutes of Health

For all 10 subawards tested that were subject to Transparency Act reporting, the University of Texas M.D. Anderson Cancer Center (Cancer Center) did not submit the required Transparency Act reports. During fiscal year 2013, the Cancer Center did not report any of its subawards as required by the Transparency Act, and it did not have a process to do so. Not submitting required Transparency Act reports decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Federal Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, CFR, Sections 215.51 and 215.52). Recipients use the Federal Financial Report SF-425 or the Request for Advance or Reimbursement SF-270 to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425 and SF-270, including definitions and requirements of key reporting elements.

The Cancer Center did not ensure that its financial reports included all activity in the reporting period, were supported by applicable accounting records, and were presented fairly in accordance with program requirements. Specifically, 6 (10 percent) of the 60 financial reports tested did not accurately reflect the federal expenditures and unobligated balances and/or the indirect expense due to omissions and data entry errors. The Cancer Center reviewed those financial reports prior to submission; however that review did not detect those data entry errors or omitted transactions. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor its awards.

American Recovery and Reinvestment Act Reporting

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 (Recovery Act, Section 1512(c)).

The Cancer Center did not always ensure that its Recovery Act reports were complete and accurate. Specifically, 1 (11 percent) of 9 Recovery Act reports tested did not include all expenditures for those awards. The Cancer Center charged federal expenditures to this award after it submitted its final Recovery Act report and did not revise or resubmit that report to include all subsequent expenditures. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor its awards.

The following awards were affected by the Transparency Act reporting issues discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
43.003	Exploration	NNX13AF05G	January 23, 2013 to January 22, 2014
93.395	Cancer Treatment Research	5 R01 CA168484 02	September 26, 2011 to July 31, 2016
93.855	Allergy, Immunology and Transplantation Research	5 R03 AI092252 02	January 1, 2011 to December 31, 2012
93.394	Cancer Detection and Diagnosis Research	5 R01 CA159042 03	March 1, 2011 to February 29, 2016
93.395	Cancer Treatment Research	R01 CA155446 02	September 19, 2011 to August 31, 2016
93.395	Cancer Treatment Research	5 P01 CA148600 02	September 22, 2011 to August 31, 2016
93.394	Cancer Detection and Diagnosis Research	5R01CA163587-02	September 4, 2012 to July 31, 2017
93.172	Human Genome Research	5 R01 HG005859 03	September 1, 2011 to May 31, 2016
93.361	Nursing Research	5 R01NR014195-02	September 27, 2012 to June 30, 2017

The following awards were affected by the financial reporting issue discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.395	Cancer Treatment Research	5 P01 CA124787 05	September 18, 2008 to August 31, 2013
93.396	Cancer Biology Research	5 P01 CA130821 05	September 10, 2008 to August 31, 2014

UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.397	Cancer Center Support Grants	5U54 CA153505 03	September 1, 2012 to August 31, 2015
93.397	Cancer Center Support Grants	5 P50 CA093459 08	July 27, 2012 to July 26, 2013
93.395	Cancer Treatment Research	5 P01 CA049639 23	February 12, 1997 to June 30, 2015
93.397	Cancer Center Support Grants	5 P50 CA142509 03	September 22, 2010 to August 31, 2015

The following award was affected by the Recovery Act reporting issue discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.397	Cancer Center Support Grants	5 P50 CA091846 10	September 15, 2009 to August 31, 2012

Recommendations:

The Cancer Center should:

- Implement a process to report subawards that are subject to Transparency Act reporting requirements in a timely and accurate manner.
- Strengthen controls to ensure that the federal financial reports and Recovery Act reports it submits are complete and accurate.

Management Response and Corrective Action Plan:

The Cancer Center developed and implemented a process to identify and report subawards that are subject to Transparency Act reporting requirements, timely and accurately.

The Cancer Center will strengthen controls to ensure that federal financial reports and Recovery Act reports are accurately submitted.

Implementation Date: October 2013

Responsible Person: Claudia Delgado

Reference No. 2013-186

Subrecipient Monitoring

(Prior Audit Issue 13-172)

Research and Development Cluster

Award years – September 30, 1999 to August 31, 2015; August 15, 2007 to June 30, 2012; April 8, 2008 to February 28, 2013; May 1, 2010 to February 28, 2015; September 10, 2008 to August 31, 2013; and September 22, 2010 to August 31, 2015

Award numbers – CFDA 93.399, Cancer Control, 5 P50 CA083639 12; CFDA 93.865, Child Health and Human Development Extramural Research, 5 R01 HD056315 05; CFDA 93.396, Cancer Biology Research, 5 R01 CA123219 05; CFDA 93.393, Cancer Cause and Prevention Research, 5 R01 CA149462 03; CFDA 93.395, Cancer Treatment Research, 5 P01 CA128913 04; and CFDA 93.397, Cancer Centers Support Grants, 1 P50 CA142509 01

Type of finding – Significant Deficiency and Non-Compliance

Preaward Requirements

Beginning October 1, 2010, an agency may not make an award to an entity until it has obtained a valid Data Universal Numbering System (DUNS) number for that entity (Title 2, Code of Federal Regulations, Sections 25.105 and 25.205).

Questioned Cost: \$ 0

National Institutes of Health

For 1 (4 percent) of 28 non-American Recovery and Reinvestment Act subawards tested that were awarded after October 1, 2010, the University of Texas M.D. Anderson Cancer Center (Cancer Center) did not obtain a DUNS number prior to making the subaward. The Cancer Center uses a preaward process to document subrecipient information, including a subrecipient’s DUNS number. However, the Cancer Center did not consistently apply that process. Not obtaining a DUNS number prior to award could lead to improper reporting of federal funding on the Cancer Center’s Federal Funding Accountability and Transparency Act reports.

During-the-award Monitoring

As a pass-through entity, the Cancer Center is required by U.S. Office of Management and Budget Circular A-133, Subpart D, Section 400(d), to monitor the activities of subrecipients to ensure that federal awards are used in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

For 5 (17 percent) of 29 subawards tested, the Cancer Center did not consistently monitor subrecipient activities during the subaward periods to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal requirements. Specifically, for those subawards the Cancer Center reviewed and approved subrecipient invoices prior to payment; however, the subrecipient invoices did not contain sufficient detail for the Cancer Center to determine whether the expenditures were for allowable activities and costs and whether the expenditures complied with other federal and award requirements. For example, one subrecipient invoice included a \$10,820 line item labeled “Expense” with no explanation of the type of expenses included. Two subrecipient invoices included travel line items, but the budgets for those two subawards did not include travel.

Insufficient during-the-award monitoring increases the risk the Cancer Center would not detect subrecipients’ noncompliance with federal requirements.

Recommendations:

The Cancer Center should:

- Strengthen its procedures to ensure that it obtains a DUNS number prior to making a subaward.
- Consistently monitor subrecipient activities during the subaward period to ensure that subrecipient expenditures are allowable and comply with award requirements.

Management Response and Corrective Action Plan:

The Cancer Center will strengthen procedures to ensure that a DUNS number is obtained prior to issuing an award to a subrecipient. The Cancer Center has obtained the DUNS number for the one subaward identified.

The Cancer Center will consistently monitor subrecipient activity during the period of performance to ensure that the expenditures are allowable and in compliance with the award requirements.

Implementation Date: February 2014

Responsible Person: Claudia Delgado

University of Texas Southwestern Medical Center

Reference No. 2013-192

Period of Availability of Federal Funds

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Material Weakness and Non-Compliance

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 (CFR), 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, CFR Section 215.71(b)).

Questioned Cost: \$ 13,884

U.S. Department of Health and
Human Services

For 24 (40 percent) of 60 transactions tested that were recorded after the end of the award period of availability, the University of Texas Southwestern Medical Center (Medical Center) did not incur costs within the period of availability or did not liquidate its obligations within the required time period. Specifically:

- For two transactions, the Medical Center did not incur the costs within the funding period. One of those transactions was a monthly payment for telecommunication rental equipment for a month after the funding period for the award had ended. During fiscal year 2013, the Medical Center charged \$2,484 in unallowable telecommunication rental equipment costs to award N01MH090003. The other transaction was an \$11,400 charge for medical and lab supplies to CFDA 93.847, award 1R01DK091680-01A1.
- The Medical Center charged one transaction to an incorrect federal award. The expenditure was for another award with the same subcontractor. After auditors brought that error to the Medical Center's attention, the Medical Center transferred the cost to the correct award; therefore, there were no questioned costs.
- For three transactions, the Medical Center incorrectly charged indirect costs. All three transactions were corrections for mistakes the Medical Center made. The Medical Center has a quarterly review process; however, it did not conduct that review in a timely manner to ensure that it could identify and resolve errors promptly. The Medical Center corrected those transactions; however, it made the corrections between 162 and 519 days after the end of the award funding period.
- For 18 transactions, the Medical Center liquidated its obligations more than 90 calendar days after the end of the funding period. The Medical Center liquidated those transactions, which totaled \$757,337, between 114 and 496 days after the end of the funding period. Although the Medical Center was aware of the outstanding obligations, it did not have a procedure to notify the sponsor of the outstanding obligations or request an award close-out extension from the sponsor.

The Medical Center had a process to review and approve invoices; however, that process was not sufficient to ensure that the Medical Center charges expenditures to the correct awards. Additionally, the Medical Center does not have an adequate process to ensure that it liquidates obligations within 90 days after the end of an award's funding period.

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

The following awards were affected by the issues discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.000	Not Applicable	N01MH090003	September 29, 1999 to March 31, 2011
93.000	Not Applicable	BRCS04086	September 13, 2004 to June 30, 2012
93.394	Cancer Detection and Diagnosis Research	U01CA086402	February 1, 2011 to June 30, 2012
93.701	Trans-NIH Recovery Act Research Support	5RC1HD06415902	January 15, 2009 to August 31, 2012
93.701	Trans-NIH Recovery Act Research Support	3R01HL08574903S1	July 15, 2009 to May 31, 2012
93.701	Trans-NIH Recovery Act Research Support	5R01DA01667207	August 1, 2009 to July 31, 2011
93.701	Trans-NIH Recovery Act Research Support	3R01NS04951705S1	September 15, 2009 to February 29, 2012
93.839	Blood Diseases and Resources Research	5 R01HL095647 04	March 28, 2011 to July 31, 2012
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01DK082916-04	June 1, 2011 to May 31, 2012
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	1R01DK091680-01A1	April 1, 2012 to November 30, 2012
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS06755302	September 22, 2009 to August 31, 2011
93.865	Child Health and Human Development Extramural Research	5U01HD04265205	July 1, 2003 to June 30, 2012
93.866	Aging Research	3R01AG01747909S1	September 1, 2006 to June 30, 2012

Recommendations:

The Medical Center should:

- Strengthen its review process to ensure that it incurs costs within the period of availability, charges transactions to the appropriate awards, and correctly charges indirect costs to awards.
- Develop and implement a process to ensure that it liquidates its obligations within required time frames or requests an award close-out extension from the sponsor.

Management Response and Corrective Action Plan:

Sponsored Programs Administration has recently undertaken a comprehensive reorganization of the department – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization will strengthen overall controls and increase the level of fiscal compliance and monitoring activities across sponsored programs activities – particularly those activities related to period of availability.

The Medical Center will continue to define, clarify, document, and implement processes and procedures which assure it liquidates obligations, reconciles, and closes sponsored program awards in a timely manner. Further, the Medical Center will continue to monitor all sponsored award activities during their period of availability to help mitigate risk, increase efficiencies, and encourage fiscal compliance to the maximum extent possible.

Implementation Date: April 2014

Responsible Person: Tom Champagne

Reference No. 2013-193

Reporting

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, Code of Federal Regulations (CFR), Chapter 170).

Questioned Cost: \$ 0

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

Recipients of awards subject to the Transparency Act must report all required elements established in the U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting*, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number. The subaward obligation date is defined as the date the subaward agreement is signed. Additionally, the amount of the subaward is the net dollar amount of federal funds awarded to the subawardee including modifications (U.S. Office of Management and Budget's *Open Government Directive - Federal Spending Transparency and Subaward and Compensation Data Reporting, August 27, 2010, Appendix C*).

For all 13 Transparency Act reports tested, the University of Texas Southwestern Medical Center (Medical Center) did not accurately report key data elements and/or did not submit the reports within the required time frame. Specifically:

- For 4 of those reports, the Medical Center did not submit the reports within the required time frame due to staffing changes. The Medical Center submitted those reports between 168 and 452 days late.
- For 9 of those reports, the Medical Center did not accurately report key data elements related to the awards. The Medical Center did not report amendments or modifications made to the subawards; therefore, the reported subaward obligation amounts were inaccurate. As a result of not reporting subaward modifications, the Medical Center also did not update its reports within the required time frame.

Additionally, for 11 (85 percent) of the 13 Transparency Act reports tested, the Medical Center reported an incorrect obligation date. For 10 of those reports, the Medical Center reported the obligation date as the first date of the subaward period, instead of the date the subaward was signed. For the remaining report, the Medical Center reported an incorrect obligation date for an unknown reason.

Those issues occurred because the Medical Center did not have sufficient controls to ensure that its Transparency Act reports were accurate and that it submitted those reports in a timely manner. Not submitting accurate Transparency Act reports in a timely manner decreases the reliability and availability of information to the awarding agency and the public.

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, CFR, Sections 215.51 and 215.52). Recipients use the Federal Financial Report SF-425 or the Request for Advance or Reimbursement SF-270 to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425 and SF-270, including definitions and requirements of key reporting elements. For National Institutes of Health awards, grantees must submit quarterly reports no later than 30 days after the end of each reporting period and must submit final financial status reports within 90 days of the end of the grant support.

The Medical Center did not always submit final financial reports within the required time frame. For 1 (2 percent) of 60 financial reports tested, the Medical Center did not submit a final financial status report. The Medical Center asserted that it delayed submitting that final financial status report to make adjustments to final amounts as a result of its transition to a new accounting system. Although the Medical Center has a process to identify due dates for final financial status reports, it does not have a process to ensure that it submits those reports within the required time frame. By not submitting final financial status reports in a timely manner, the Medical Center risks suspension or termination of award funding or other enforcement actions from awarding entities.

The following awards were affected by the Transparency Act reporting issues noted above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.300	Basic and Applied Scientific Research	N000141110203	June 1, 2011 to May 31, 2014
93.000	Not applicable	HHSF223201110109A	September 15, 2011 to September 14, 2014
93.213	Research and Training in Complementary and Alternative Medicine	5R01AT00688903	July 1, 2011 to June 30, 2014
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	7R01EB004582-06	August 1, 2011 to March 31, 2015
93.350	National Center for Advancing Translational Sciences	2UL1TR000451-06	June 1, 2012 to July 23, 2014
93.397	Cancer Centers Support Grants	5U54CA16330803	September 23, 2011 to May 31, 2014
93.837	Cardiovascular Diseases Research	5R01HL09678203	January 1, 2011 to August 31, 2013
93.847	Diabetes, Digestive, and Kidney Diseases Extramural	5R34DK094115-02	September 30, 2011 to August 31, 2013

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
	Research		
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS07275402	September 1, 2011 to May 31, 2014
93.855	Allergy, Immunology and Transplantation Research	1R01AI103947-01	January 1, 2012 to December 31, 2017
93.865	Child Health and Human Development Extramural Research	5P01HD01114933	December 1, 2010 to January 31, 2014
93.866	Ageing Research	5R01AG017479-11	July 1, 2012 to June 30, 2014

The following award was affected by the financial reporting issue noted above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.173	Research Related to Deafness and Communication Disorders	5R01DC00610109S1	July 1, 2008 to June 30, 2013

Recommendations:

The Medical Center should:

- Submit accurate Transparency Act reports in a timely manner and include subaward amendments and modifications in those reports.
- Submit all required financial reports to awarding entities within the required time frames or request extensions from those awarding entities.

Management Response and Corrective Action Plan:

The Medical Center has justified and secured appropriate and sufficient system technology access for those involved in submitting Transparency Act reports. Further, the Medical Center has provided the necessary orientation and training to those involved. The root-cause reasons for limited system access have been addressed and the Medical Center will monitor procedural breakdowns for swift attention, moving forward.

Additionally, the Medical Center will review and sufficiently strengthen its financial reporting database to assure that all reports are included, that such reports are submitted in a timely manner, and continuously implement changes to the processes, as necessary, to help ensure compliance in these areas.

Implementation Date: April 2014

Responsible Person: Tom Champagne

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

Reference No. 2013-194

Subrecipient Monitoring

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

When acting as a pass-through entity, the University of Texas Southwestern Medical Center (Medical Center) is required by Office and Management and Budget (OMB) Circular A-133, Section .400, to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. At the time of the subaward, the pass-through entity must identify to the subrecipient the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, the name of the federal awarding agency, and applicable compliance requirements (OMB Circular A-133, Section .400 (d)).

Questioned Cost: \$ 0
National Institutes of Health

For 8 (27 percent) of 30 subaward agreements tested, the Medical Center did not identify the CFDA title to the subrecipients at the time of the award. For one of those subaward agreements, the Medical Center did not complete the CFDA title field in the template it used to prepare the agreements. The Medical Center awarded the remaining seven subaward agreements prior to fiscal year 2011, when the Medical Center implemented a new subaward template that included a field for the CFDA title. Inadequate identification of federal awards to subrecipients could lead to improper reporting of federal funding on a subrecipient's schedule of expenditures of federal awards.

The following awards were affected by the subrecipient monitoring issues noted above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.273	Alcohol Research Programs	5R01AA01520105	September 1, 2012 to August 31, 2013
93.865	Child Health and Human Development Extramural Research	5R01HD05297305	May 1, 2013 to April 30, 2014
93.397	Cancer Centers Support Grants	5P50CA07090715	June 27, 2011 to April 30, 2012
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK08187205	September 1, 2009 to August 31, 2013
93.279	Drug Abuse and Addiction Research Programs	5U10DA02002409	September 1, 2012 to August 31, 2013
93.855	Allergy, Immunology and Transplantation Research	5R01AI07770604	September 1, 2010 to August 31, 2013
93.855	Allergy, Immunology and Transplantation Research	5R01AI05306710	January 1, 2008 to December 31, 2012

Recommendation:

The Medical Center should identify all required federal award information to its subrecipients at the time of award.

Management Response and Corrective Action Plan:

The Medical Center will review all active sub awards, established prior to implementation of the “standard template”, and update each active award with the required CFDA Title and CFDA number. These actions will bring all existing sub awards into compliance.

Implementation Status: In-progress

Implementation Date: April 2014

Responsible Person: Tom Champagne

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 2012 Schedule of Findings and Questioned Costs.
- Each finding in the 2012 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, 2013) has been prepared to address these responsibilities.

Texas A&M 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

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)).

Initial Year Written: 2011
Status: Implemented

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

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.

TEXAS A&M AGRILIFE RESEARCH

The issue discussed above affected the following awards:

<u>CFDA</u>	<u>Agency</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Questioned Cost</u>
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

Corrective Action:

Corrective action was taken.

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)).

Initial Year Written: 2011
Status: Implemented

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.

Corrective Action:

Corrective action was taken.

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

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).

Initial Year Written: 2011 Status: Partially Implemented
Federal agencies that award R&D funds

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 2011:

The referenced procedure was written in 2003. In the ensuing years, the staffing of the AgriLife Contracts and Grants Office did not keep 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.

Management Response and Corrective Action Plan 2012:

This finding relates to closing out accounts in the 90 days following the end of the grant. While no expenses were found to have occurred in this time period, the concern of the auditors was that expenses could have been incurred. The Office of Sponsored Research Services has established a detailed close-out process and places an emphasis on timely close-out of projects and submission of FFRs. Enhancements have been requested to the accounting system to prevent this. In addition, all expenses for an account are reviewed prior to posting against the account.

Management Response and Corrective Action Plan 2013:

SRS has implemented a 12- step close out process that starts the date the project ends (1/1/2012). Additionally, SRS has worked with AgriLife to identify and develop expedited processes for some of the older projects needing to be closed (3/1/2013). Also, for projects beginning 9/1/12 and after, a new procedure to have departments move any cost overruns prior to closeout has been implemented. There have been enhancements implemented in the financial systems to keep expenditures from being charged to the project once the termination date has been reached. Expenses charged on a project are reviewed by the SRS voucher compliance group and they review to ensure that expenditures occur within the project term. SRS is continuing to fine tune the closeout process with the goal of being able to work through the backlog of closeouts and close projects within the required timeframe.

Implementation Date: Various

Responsible Person: David Hollingsworth

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

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).

Initial Year Written: 2011
Status: No longer Valid

U.S. Department of Energy

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).

Corrective Action:

Texas A&M AgriLife Research has fully expended all subawards made under Recovery Act funding; therefore, this finding is no longer valid.

Texas State University

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

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.

Initial Year Written: 2009
Status: 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

The issues discussed above affected the following awards:

<u>CFDA</u>	<u>Award Numbers</u>	<u>Award Years</u>
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

Corrective Action:

Corrective action was taken.

University of Houston

Reference No. 13-149

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Procurement and Suspension and Debarment**

**Research and Development Cluster
Award year – Multiple
Award number – Multiple
Type of finding – Significant Deficiency**

Segregation of Duties

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)).

Initial Year Written: 2012
Status: Implemented
Federal Agencies that Provide R&D Awards

The University of Houston (University) uses its financial management system to initiate and approve purchase requisitions and purchase vouchers. **The University does not have adequate segregation of duties for the initiation and approval of purchase requisitions, purchase vouchers, and journal entries.** Specifically, user access rights associated with the final approval role in the University’s financial management system include the privilege to initiate and approve purchase requisitions, purchase vouchers, and journal entries. The University asserted that this is a limitation of its software.

As a result of the issue discussed above, auditors identified instances in which the same individual initiated and approved purchase requisitions, purchase vouchers, and journal entries. The lack of segregation of duties between initiating and approving transactions increases the risk that unallowable costs could be charged to federal awards.

Approval of Transfers

The University did not obtain the appropriate approvals for 7 (21 percent) of 34 cost transfers tested. The University’s policy requires all non-payroll expenditure reallocations to be approved by the Office of Contracts and Grants before they are processed in its financial system. The seven cost transfers were processed without obtaining the required approval of the Office of Contracts and Grants.

Not ensuring that the Office of Contracts and Grants approves cost transfers increases the risk that unallowable costs could be charged to federal awards.

Corrective Action:

Corrective action was taken.

University of North Texas

Reference No. 13-151

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Award years – October 1, 2007 to September 30, 2012 and October 1, 2008 to September 30, 2013

Award numbers – CFDA 84.217, TRIO_McNair Post-Baccalaureate Achievement, P217A070021 and CFDA 47.076, Education and Human Resources, 0833706

Type of finding – Significant Deficiency and Non-Compliance

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, Appendix A, C.2).

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Education
National Science Foundation

One (1 percent) of 70 direct cost transactions tested at the University of North Texas (University) was unallowable. The University reimbursed \$19 in gratuity charges as part of a travel reimbursement. When the University reviewed and approved that travel reimbursement request, it charged the total amount of the travel expenses, including the gratuity, to the federal award. However, the gratuity portion of the expenses should have been charged to an institutional account. At the time of the audit, the University transferred the cost of the gratuity to an institutional account and reduced a subsequent federal reimbursement request by the amount of the gratuity.

For 1 (1 percent) of 70 direct cost transactions tested, the University incorrectly calculated the amount of the federal expenditure. The University miscalculated a partial month's salary payment, resulting in an underpayment to an employee of \$32. At the time the University incurred that expenditure, its payroll office manually calculated the partial payment amount with no separate review of that process. After auditors identified this error, the University corrected the error and paid the employee the correct amount.

Without proper review and approval, there is a risk that the University could charge unallowable and incorrect expenditures to federal grants.

Recommendation:

The University should establish and implement procedures to ensure that it does not charge unallowable or incorrect costs to federal awards.

Management Response and Corrective Action Plan 2012:

The UNT Business Service Center (BSC) agrees. The BSC has corrected the travel reimbursement and the payroll underpayment. The BSC has established business practices to address the recommendation, which include:

- *Provided additional training to Travel staff regarding unallowable expenses on federal funds.*
- *Will participate in ongoing collaboration with the UNT Office of Research Services to enhance the audit process of travel expenditures to avoid unallowable charges to federal funds.*
- *ERP (PeopleSoft) system now calculates partial months using an annualized hourly rate of pay (2,080 hours). The manual calculation is no longer necessary.*

2013 Update:

The University has implemented a process to calculate partial month salary payments. Auditors tested a sample of payroll transactions and determined that each transaction was allowable and calculated correctly. However, 1 of 15 travel expenditures tested was unallowable. The University reimbursed gratuity charges as part of a travel reimbursement.

Management Response and Corrective Action Plan 2013:

The UNT Office of Research Services has a written procedure and training in place covering unallowable expenditures on federal awards, including tips. The employee that approved the travel reimbursement that included the \$19 was already aware of the procedure, but didn't detect the unallowable charge during his regular review. The issue has been discussed with the employee, and will be reinforced further with all employees.

Also, effective immediately, the UNT System Business Service Center (central accounts payable are for all UNT agencies) will begin a 100% pre-payment audit on all federal grant travel vouchers, to help ensure that unallowable charges, including tips, are detected prior to payment.

At the time the error was detected, the UNT Office of Research Services transferred the cost of the \$19 tip to an institutional account and reduced a subsequent federal reimbursement request by the amount of the tip.

Implementation Date: 12/5/2013

Responsible Persons: Britt Krhovjak and Debbie Reynolds

Reference No. 13-152

Procurement and Suspension and Debarment

Research and Development Cluster

Award years – June 1, 2012 to May 31, 2016; August 15, 2011 to January 14, 2013; September 1, 2011 to August 31, 2012; and September 18, 2008 to November 18, 2014

Award numbers – CFDA 47.074, Biological Sciences, IOS-1146758; CFDA 12.300, Basic and Applied Scientific Research, HQ0034-11-C-0039; CFDA 12.431, Basic Scientific Research, W911NF-11-1-0402; and CFDA 12.800, Air Force Defense Research Sciences Program, FA8650-08-C-5226 (P00002)

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2012
Status: Partially Implemented

National Science Foundation
U.S. Department of Defense

The University of North Texas (University) did not ensure that vendors associated with 4 (40 percent) of 10 procurements tested that exceeded \$25,000 were not suspended or debarred. For limited competition procurements, the University's process is to verify that vendors are not suspended or debarred by checking the EPLS. However, for those four limited competition procurements, the University did not maintain evidence that it verified that the vendors were not suspended or debarred. Auditors reviewed the EPLS and verified that the vendors were not suspended or debarred.

Not verifying vendors' suspension and debarment status could result in contracting with vendors that are not eligible to receive federal funds.

Recommendation:

The University should document its vendor suspension and debarment verifications for all procurements of at least \$25,000.

Management Response and Corrective Action Plan 2012:

The UNT System Business Service Center (BSC) agrees. The BSC has established business practices to address the recommendation, which include:

- Added a clause/condition to the UNT System Purchase Order Terms and Conditions on 10/26/12.
- Provided additional training to Purchasing staff on EPLS Search and documentation requirements on 1/16/13.
- Created a procedure to ensure all procurements of at least \$25,000 are documented appropriately and are audited by management daily on 1/22/13.

Management Response and Corrective Action Plan 2013:

All Business Service Center Purchasing staff will be re-educated on the EPLS requirements and the need to maintain verification documentation. Purchasing Director/Manager will continue to audit for compliance on a daily basis.

Implementation Date: 12/16/2013

Responsible Persons: Debbie Reynolds, Carolyn Cross, and Tina Koenig

Reference No. 13-153

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA

Award year – June 1, 2009 to May 31, 2012

Award number – CFDA 47.082, Trans-NSF Recovery Act Research Support, OISE-0854350

Type of finding – Significant Deficiency and Non-Compliance

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).

Initial Year Written: 2012 Status: No Longer Valid National Science Foundation
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The University of North Texas (University) did not send the required notification of Recovery Act information 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. Without receiving a notification at the proper time, subrecipients could report inaccurate Recovery Act expenditures.

Corrective Action:

The University has fully expended all subawards made under Recovery Act funding; therefore, this finding is no longer valid.

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

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)).

Initial Year Written: 2011
Status: Implemented

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

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.

Corrective Action:

Corrective action was taken.

University of Texas at Austin

Reference No. 13-160

Allowable Costs/Cost Principles

(Prior Audit Issues 12-169 and 11-168)

Research and Development Cluster

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

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. The costs of each service shall consist normally of both its direct costs and its allocable share of all facilities and administrative costs. 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).

Initial Year Written: 2010
Status: Implemented

Federal Agencies that Provide
R&D Awards

The University of Texas at Austin's (University) *Handbook of Operating Procedures* states that a service center manager is required to submit a rate proposal to the Office of Accounting on a biennial basis; retain all costs, projections, and any other information used to develop rates to substantiate charges; ensure that rates include only costs directly related to the operation of the service center and the service or good the user receives; and analyze internal expenses and income to ensure that the service center is operating on a break-even basis.

The University did not always ensure that the costs of services provided by service centers were designed to recover only the aggregate costs of the services. In addition, the University did not always perform a biennial review of service centers' rates. Specifically:

- For 1 (8 percent) of 12 service centers tested, the University could not provide a rate proposal; therefore, auditors could not determine whether the rates that the service center charged were designed to recover only the related costs of the services provided.
- For 5 (42 percent) of 12 service centers tested, the University had not reviewed rates within the past two years to ensure that it adjusted rates to recover only the related costs for services provided. The University performed the last rate review in 2005 for three of those service centers and in 2007 for one of those services centers; it had no rate review on file for the remaining service center.

Without a rate proposal or biennial review of rates, rates that service centers charge may not be designed to recover only the related costs of the services provided.

Corrective Action:

Corrective action was taken.

Reference No. 13-161

Equipment and Real Property Management

(Prior Audit Issue 12-170)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding –Significant Deficiency and Non-Compliance

A recipient’s equipment records for equipment acquired with federal funds and federally-owned equipment shall be maintained accurately and include all of the following: a description of the equipment; manufacturer’s serial number, model number, federal stock number, national stock 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.

Initial Year Written: 2011 Status: Partially Implemented U.S. Department of Energy
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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 causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and 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’s (University) *Handbook of Business Procedures* requires an inventory tag with a bar code to be affixed to new equipment items that are capitalized (items with a unit cost of \$5,000 or more) or controlled (certain items with a unit cost of \$500 to \$4,999.99). The University then enters appropriate data into its automated inventory system.

The University did not always maintain adequate property records for its equipment items or ensure that items were adequately safeguarded. For 5 (8 percent) of 65 equipment items tested, the University’s records did not accurately reflect the location and status of the items. Specifically:

- The University was unable to locate one item during the audit, and that item is now considered missing. There were no questioned costs associated with that item because the federal award that the University used to purchase that item was complete; as a result, the University had ownership of that item.
- The University was unable to locate three items listed in its property records. The University showed auditors pieces of equipment that it asserted were those items; however, the property identification numbers on those pieces of equipment did not match the numbers listed in the property records. There were no questioned costs associated with two of those items because the federal awards that the University used to purchase those items were complete; as a result, the University had ownership of those items. The University purchased the third item in fiscal year 2011 under award DE-FG02-01ER15186, and there were \$59,950 in questioned costs associated with that award.
- The University’s property records did not accurately reflect the location of one item at the time of the audit.

Those errors occurred as a result of weaknesses in the University’s inventory and record-keeping processes.

In addition, 1 (2 percent) of the 61 equipment items tested that were required to have an inventory tag did not have an inventory tag affixed to it. The University asserted that it had tagged that item; however, it was unable to locate the tag on that item.

Without properly maintaining property records and tagging equipment items, the University cannot ensure that it safeguards equipment adequately, which increases the risk that assets may be unidentified, lost, or stolen.

UNIVERSITY OF TEXAS AT AUSTIN

The issues above affected the following awards:

<u>CFDA</u>	<u>CFDA Name</u>	<u>Agency</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Questioned Cost</u>
12.800	Air Force Defense Research Sciences Program	U.S. Department of Defense – Air Force	FA9550-04-1-0331	May 1, 2004 to June 30, 2006	\$ 0
47.049	Mathematical and Physical Sciences	National Science Foundation	CHE-9875315	March 1, 1999 to February 28, 2003	0
43.000	National Aeronautics and Space Administration	National Aeronautics and Space Administration	NAG2-067	September 1, 1980 to September 30, 1998	0
81.049	Offices of Science Financial Assistance Program	U.S. Department of Energy	DE-FG02-01ER15186	September 1, 2001 to October 31, 2013	59,950
12.000	U.S. Department of Defense	U.S. Department of Defense – Army	DAAA21-93-C-0101	October 1, 1993 to September 30, 1998	0
93.859	Biomedical Research and Research Training	U.S. Department of Health and Human Services	5 R01 GM065956-03	May 1, 2003 to October 31, 2007	<u>0</u>
Total Questioned Costs					\$59,950

Corrective Action:

This finding was reissued as current year reference number: 2013-176.

Reference No. 13-162

Procurement and Suspension and Debarment

Research and Development Cluster

Award years – May 1, 2010 to April 30, 2015; October 1, 2010 to December 31, 2013; and August 3, 2009 to August 31, 2014

Award numbers – CFDA 12.800, Air Force Defense Research Sciences Program, FA9550-10-1-0169; CFDA 81.089, Fossil Energy Research and Development, DE-FE-0005917 and DE-FE-0005902; and CFDA 93.859, Biomedical Research and Research Training, 5R00GM088384-04

Type of finding – Significant Deficiency and Non-Compliance

Competition in Procurement

All procurement transactions shall be conducted in a manner to provide, to maximum extent practical, open and free competition. In addition, 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. (Title 2, Code of Federal Regulations (CFR), Sections 215.43 and 215.46). Some form of cost or price analysis shall be made and documented in the procurement files

Initial Year Written: 2012
 Status: Implemented

 U.S. Department of Health and Human Services

in connection with every procurement action (Title 2, CFR, Section 215.45).

The University of Texas at Austin's (University) *Handbook of Business Procedures* requires that it perform a cost reasonableness analysis and include a justification for sole source purchases for all non-competitive procurements that exceed \$5,000. In its sole source justification, the University's purchasing department is required to (1) identify the unique features of the particular product or service, (2) explain the need for the unique features of the product or service, and (3) explain why other products or services are not acceptable. Additionally, the University's procedures allow it to use the sole source purchasing option when the goods or services are available only through a single source or when it determines that the purchase provides the best value to the University. **The University did not always document the basis for contractor selection, the rationale for the method of procurement, a cost or price analysis for the procurement, or a justification for limited competition.** For 1 (2 percent) of 60 procurements tested, the University made a limited competition purchase through its electronic marketplace program. However, the University did not retain documentation of its justification for limited competition. In addition, the University did not retain documentation regarding how it selected the vendor to participate in its electronic marketplace program or whether the vendor offered the best value for the University. This resulted in questioned costs of \$10,821 associated with award 5R00GM088384-04.

Not recording and retaining documentation related to limited competition procurement transactions and vendor selection increases the risk that procurements may not provide the best value and that limited competition procurements could be inappropriate.

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 University did not always document that it verified that vendors were not suspended or debarred from federal procurements. For 2 (8 percent) of 25 procurements tested that were at least \$25,000, the University could not provide evidence that it verified the vendors' suspension and debarment status. For one of those two procurements, the University did not retain the documentation in the procurement file. For the other procurement, the University traded an existing equipment item toward the purchase of a new equipment item whose total value exceeded \$25,000; however, the University did not perform a verification of the vendor's suspension and debarment status because the resulting net purchase price did not exceed \$25,000. Auditors searched the EPLS and verified that the vendors for the procurements tested were not suspended or debarred.

When the University does not verify that vendors are not suspended or debarred, this increases the risk that it could enter into procurements with vendors that are not eligible to receive federal funds.

Corrective Action:

Corrective action was taken.

University of Texas Health Science Center at Houston

Reference No. 13-165

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

(Prior Audit Issue 11-172)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency

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)).

Initial Year Written: 2010
Status: Partially Implemented

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

The University of Texas Health Science Center at Houston (Health Science Center) did not complete in a timely manner certifications of after-the-fact time and effort reports for 8 (18 percent) of 45 payroll transactions tested. According to Health Science Center policy, certification is considered timely if it occurs within 30 calendar days after the time and effort reports are made available to department personnel for certification. Department personnel certified the 8 time and effort reports between 3 and 89 days after certification was due. The Health Science Center has a process to notify department academic and administrative leadership or department deans if certifications are not completed in a timely manner. However, because those notifications are sent after the 30-day period has expired, the process is not adequate to ensure that department personnel submit certifications in a timely manner.

A prolonged elapsed time between activity and certification of the activity can decrease the accuracy of reporting and increase the time between payroll distribution and any required adjustments to that distribution.

The following awards were affected by the issue noted above:

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
84.305	Education Research, Development and Dissemination	R305A090212-10	March 1, 2010 to February 28, 2013
12.420	Military Medical Research and Development	W81XWH-11-1-0240	September 1, 2011 to August 31, 2012
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK035566-26	July 1, 2011 to June 30, 2012
93.855	Allergy, Immunology and Transplantation Research	5P01A1077774-01	August 1, 2011 to July 31, 2012

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.728	ARRA – Strategic Health IT Advanced Research Projects (SHARP)	90TR0004-01	April 1, 2011 to March 31, 2012
93.701	Trans-NIH Recovery Act Research Support	1RC4HD67977-01	September 1, 2011 to August 31, 2012
93.701	Trans-NIH Recovery Act Research Support	U01NS062835	September 1, 2011 to August 31, 2012
93.701	Trans-NIH Recovery Act Research Support	5R01EY0118352-02	August 1, 2010 to July 31, 2012

Recommendation:

The Health Science Center should ensure that all departments certify after-the-fact time and effort reports in a timely manner according to its policy.

Management Response and Corrective Action Plan 2012:

The institutional procedures established in June 2010 provide three notifications during the effort reporting certification period. The notifications remind the responsible parties of their obligation to certify. After the implementation of this procedure, the compliance with completing effort reports in a timely manner was greatly improved.

The procedures established in June 2010 are being enhanced to include five notifications/reminders:

- *Initial: Effort Report now available*
- *Notification 1 at 21 days prior to due date: Effort Report still outstanding*
- *Notification 2 at 14 days prior to due date: Effort Report still outstanding*
- *Notification 3 at 7 days prior to due date: Effort Report still outstanding*
- *Notification 4 at the due date: Effort Report still outstanding, last day to comply with institutional policy and federal guidelines.*

Management Response and Corrective Action Plan 2013:

The corrective action plan enhancement was implemented on July 5, 2013 (opening of effort period Jan – Jun 2013). The automated email reminders in ecr have been updated to allow the notifications to be sent out according to the schedule outlined in our initial response.

Travel restrictions will be enacted on individuals that do not certify effort statements within the effort certification window. This enforcement action will become effective January 19, 2014 (opening of effort period July – Dec 2013). Automated email reminders will be updated to include warnings regarding this additional action.

Implementation Date: July 2013

Responsible Person: Jodi Odgen

Reference No. 13-166

Procurement and Suspension and Debarment

Research and Development Cluster

Award years – April 1, 2010 to March 31, 2014; March 1, 2011 to February 29, 2012; November 15, 2011 to March 31, 2012; and August 31, 2011 to September 30, 2012

Award numbers – CFDA 93.728, ARRA – Strategic Health IT Advanced Research Projects (SHARP), 90TR000401; CFDA 93.865, Child Health and Human Development Extramural Research, 5R01HD060617-03; CFDA 93.837, Cardiovascular Diseases Research, N01-HC-05268; and CFDA 84.371, Striving Readers, ISAS# 2743

Type of finding – Significant Deficiency and Non-Compliance

All procurement transactions shall be conducted in a manner to provide, to maximum extent practical, open and free competition. In addition, 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 (Title 2, Code of Federal Regulations, Sections 215.43 and 215.46).

Initial Year Written: 2012
Status: Implemented

U.S. Department of Health and
Human Services

The University of Texas Health Science Center at Houston’s (Health Science Center) *Procurement Handbook* requires it to provide a fair opportunity for all suppliers to bid or submit proposals and be awarded contracts for goods and services. It also specifies that most contract determinations are based upon best value and that sole source procurements should be used if there is only one supplier that can provide the goods or services requested. The Health Science Center’s procurement procedures also require documentation of the due diligence performed to support a sole source purchase.

For 2 (5 percent) of 43 procurements tested, the Health Science Center did not provide an adequate justification for sole source procurements. Specifically:

- The Health Science Center selected a hotel to host an annual meeting and listed its justification for the procurement as a best value purchase; it also cited the centralized location of the hotel. However, the Health Science Center did not solicit bids from any other hotels. In addition, the Health Science Center did not document the due diligence performed to support a sole source purchase. This resulted in questioned costs of \$5,115 associated with award 90TR000401.
- The Health Science Center awarded a contract to a local medical supply company as a sole source purchase. The contract was for name-brand pharmaceutical drugs that were available at other medical supply companies. The Health Science Center listed its justification for the procurement as a best value purchase; however, it did not solicit bids from any other medical supply companies. In addition, the Health Science Center did not document the due diligence performed to support a sole source purchase. This resulted in questioned costs of \$6,557 associated with award 5R01HD060617-03.

In addition, the Health Science Center’s purchase award summary documentation requires that a minimum of two bids be obtained from certified historically underutilized businesses. **However, for 2 (50 percent) of 4 competitively bid contracts tested, the Health Science Center did not solicit bids from at least 2 historically underutilized businesses.** Those errors occurred because the Health Science Center did not follow its requirement to solicit two bids from historically underutilized businesses for those two contracts.

Corrective Action:

Corrective action was taken.

Reference No. 13-167

Reporting

Research and Development Cluster

Research and Development Cluster - ARRA

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 funds 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)).

Initial Year Written: 2012 Status: Partially Implemented

Federal Agencies that Provide R&D Awards

The University of Texas Health Science Center at Houston (Health Science Center) does not have sufficient controls to ensure that the American Recovery and Reinvestment Act (Recovery Act) Section 1512 reports and Federal Funding Accountability and Transparency Act (FFATA) reports it submits to the federal government are complete and accurate. The Health Science Center did not document its review of the expenditure reports it used to report Recovery Act and FFATA information. Performing and documenting that review is important to help ensure the completeness and accuracy of the reports the Health Science Center submits.

Auditors did not identify any errors in a sample of 14 Recovery Act Section 1512 reports tested or in a sample of 7 FFATA reports tested that the Health Science Center submitted during fiscal year 2012. However, the lack of a review increases the risk that information intended for the federal government and the public could be incomplete or inaccurate.

Recommendation:

The Health Science Center should establish and implement controls to help ensure that the Recovery Act and Transparency Act reports it submits are complete and accurate.

Management Response and Corrective Action Plan 2012:

Due to the short turnaround for ARRA reporting (ten days are allocated for reporting), UTHealth assigned this task to a senior member of the Post Award Finance team, specifically an Assistant Director. We acknowledge the concern expressed and will implement an after-the-fact report review by another PAF team member.

2013 Update:

The Health Science Center has established and implemented controls to help ensure that the Recovery Act reports it submits are complete and accurate. However, there was not a control in place during fiscal year 2013 to ensure that Transparency Act reports are complete and accurate.

Management Response and Corrective Action Plan 2013:

The Health Science Center has implemented a quarterly after-the-fact review of FFATA reports by the Supervisor of the Systems & Reporting team. Any corrections are identified by the Supervisor and returned to the Sponsored Projects assistant for correction in the FFATA Subaward Reporting System (FSRS). If needed, FSRS support tickets are filed and logged to address any additional issues.

Implementation Date: September 1, 2013

Responsible Person: Jodi Ogden

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 5R01AI088201-02; 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

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.

Initial Year Written: 2011
Status: Implemented

U.S. Department of Health and Human Services

Corrective Action:

Corrective action was taken.

University of Texas M.D. Anderson Cancer Center

Reference No. 13-168

Allowable Costs/Cost Principles

(Prior Audit Issue 11-176)

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 funds 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)).

Initial Year Written: 2010
Status: Implemented

Federal Agencies that Provide
R&D Awards

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)).

During fiscal year 2012, the University of Texas M. D. Anderson Cancer Center (Cancer Center) used its general ledger accounting system as the basis for calculating indirect costs that it had incurred related to federal research and development expenditures. The Cancer Center’s process was to calculate indirect costs each month by applying the federally approved indirect cost rate to the appropriate cost base. **However, at the time of the audit, the general ledger accounting system was not available for the purpose of testing the controls over the Cancer Center’s indirect cost calculation process; therefore, auditors were unable to determine whether those controls were operating effectively during fiscal year 2012.** Auditors identified no compliance errors in a sample of 40 indirect cost charges tested.

Corrective Action:

Corrective action was taken.

Reference No. 13-169

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 funds 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)).

Initial Year Written: 2012
Status: Partially Implemented

Federal Agencies that Provide
R&D Awards

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)).

During fiscal year 2012, the University of Texas M. D. Anderson Cancer Center (Cancer Center) used its general ledger accounting system as the basis for its drawdowns of federal funds. The Cancer Center produced a weekly report from that system to determine the amount of its expenditures for each week, and then it adjusted that amount for other factors as necessary. However, at the time of the audit, the Cancer Center’s general ledger accounting system was not available for the purpose of testing the controls used to produce that weekly report; **therefore, auditors were unable to determine whether those controls were operating effectively in fiscal year 2012.** Auditors identified no compliance errors in a sample of 40 draws tested.

Corrective Action:

This finding was reissued as current year reference number: 2013-184.

Reference No. 13-170

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

Period of Availability

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(b)).

Initial Year Written: 2012 Status: Implemented U.S. Department of Health and Human Services
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For 15 (25 percent) of 60 transactions tested that occurred after the end of the grants’ period of availability, the University of Texas M. D. Anderson Cancer Center (Cancer Center) did not obligate the transactions within the funding period. Specifically:

- Thirteen of those errors were associated with salary or fringe benefit payments to employees for periods after the funding period for the grant had ended. As a result, the Cancer Center charged \$10,888 in unallowable payroll costs to federal awards after the end of the period of availability for those grants.
- Two of those errors were associated with hospital services that the Cancer Center provided in support of the projects after the funding period for the grants had ended. As a result, the Cancer Center charged \$2,310 in unallowable costs after the period of availability for those grants.

In addition, the Cancer Center did not always liquidate obligations within 90 calendar days after the end of the funding period. For 19 (36 percent) of 53 transactions tested that were not adjustments for prior expenditures, the Cancer Center liquidated its obligations more than 90 calendar days after the end of the funding period. In addition to the 15 transactions identified as errors above, the University liquidated four additional expenditures totaling \$11,671 more than 90 days after the end of the period of availability. Although those expenditures were initially obligated during the period of availability, they were not liquidated within the required time frame and, as a result, were unallowable.

UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

The Cancer Center has a process to establish the period of availability for each award in its general ledger system. However, it has not established sufficient processes within that system to prevent expenses from posting to an award after the period of availability has ended.

Cost Transfer Review and Approval

The Cancer Center's *Cost Transfer Standard Operating Procedures* require that transfers and adjustments be reviewed and approved by staff within its Office of Sponsored Programs to ensure that all adjustments to federal funds were for obligations incurred during the funding period.

The Cancer Center did not adequately review 7 (17 percent) of 42 adjustments and transfers of federal grant expenditures as required by its procedures. Although the Grants and Contracts Department reviewed these adjustments and transfers, that review was not sufficient to identify whether those transactions were within each grant's period of availability. Three of those errors were associated with transactions identified above; for the remaining four errors, the Cancer Center subsequently identified and corrected its errors to remove those charges from federal grants.

A lack of automated controls in the general ledger system, as well as an inadequate review of adjustments and transfers, increases the risk that expenditures could be charged to federal awards after the end of the period of availability.

All of the issues discussed above affected the following awards:

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.XXX	Untitled	5 N01 AR62279	October 1, 2010 to March 29, 2012	\$ 84
93.XXX	Untitled	HNSA29020010015C 03	October 6, 2010 to October 5, 2011	1,872
93.XXX	Untitled	N01-CM-62202 09	January 1, 2010 to September 30, 2011	6,428
93.XXX	Untitled	ACOSOG-Z1041	July 2, 2007 to March 31, 2012	562
93.393	Cancer Cause and Prevention Research	5 R01 CA137625 02	December 1, 2010 to November 30, 2011	2,972
93.393	Cancer Cause and Prevention Research	1 R01 CA151899 01 A1	July 5, 2011 to April 30, 2012	186
93.393	Cancer Cause and Prevention Research	5 R01 CA119215 05	August 5, 2010 to August 31, 2011	9,244
93.393	Cancer Cause and Prevention Research	5 R01 CA139020 02	March 18, 2010 to August 31, 2011	0
93.393	Cancer Cause and Prevention Research	5 U01 CA118444 05	August 23, 2006 to July 31, 2011	0
93.394	Cancer Detection and Diagnosis Research	5 R01 CA132032 02	March 1, 2009 to February 28, 2012	2,228
93.395	Cancer Treatment Research	5 U10 CA98543 09	March 1, 2011 to February 29, 2012	470
93.395	Cancer Treatment Research	5 U10 CA010953 42	September 1, 1978 to December 31, 2010	0

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.395	Cancer Treatment Research	5 R01 CA096652 07	July 18, 2002 to July 31, 2011	0
93.839	Blood Diseases and Resources Research	U01 HL69334	July 1, 2011 to June 30, 2012	812
93.855	Allergy, Immunology and Transplantation Research	5 U19 AI071130 05	July 1, 2010 to June 30, 2011	<u>11</u>
Total Questioned Costs				\$24,869

Corrective Action:

Corrective action was taken.

Reference No. 13-171

Reporting

Research and Development Cluster

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations, Chapter 170).

Initial Year Written: 2012
 Status: Partially Implemented

 Federal Agencies that Provide
 R&D Awards

The University of Texas M. D. Anderson Cancer Center (Cancer Center) did not report subawards as required by FFATA during fiscal year 2012. The Cancer Center has not established a process to report subawards to the FFATA Subaward Reporting System (FSRS). In fiscal year 2012, the Cancer Center passed through \$12,155,143 in federal funds to non-American Recovery and Reinvestment Act subrecipients.

Not reporting required subawards to FSRS decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Corrective Action:

This finding was reissued as current year reference number: 2013-185.

Reference No. 13-172

Subrecipient Monitoring

Research and Development Cluster

Award years – September 30, 2003 to September 29, 2014; September 25, 2001 to August 31, 2012; September 1, 2009- to August 31, 2013; and September 30, 1996 to May 31, 2012

Award numbers – CFDA 93.XXX, (CFDA is untitled), N01-CN-35159-07; CFDA 93.397, Cancer Centers Support Grants, P50 CA091846 10; CFDA 93.397, Cancer Centers Support Grants, 5 P50CA136411-03; and CFDA 93.399, Cancer Control, 5U10CA045809-23

Type of finding – Significant Deficiency and Non-Compliance

Beginning October 1, 2010, an agency may not make an award to an entity until it has obtained a valid Data Universal Numbering System (DUNS) number for that entity (Title 2, Code of Federal Regulations, Sections 25.105 and 25.205).

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Health and Human Services

For 4 (17 percent) of 24 non-American Recovery and Reinvestment Act (Recovery Act) subawards tested that were awarded after October 1, 2010, the University of Texas M. D. Anderson Cancer Center (Cancer Center) did not obtain a DUNS number prior to making a subaward. The Cancer Center uses a pre-award process to document subrecipient information, including an entity’s DUNS number. However, the Cancer Center did not consistently apply that process.

Not obtaining a DUNS number could lead to improper reporting of federal funding on the Cancer Center’s Federal Funding Accountability and Transparency Act (FFATA) reports.

Corrective Action:

This finding was reissued as current year reference number: 2013-186.

Reference No. 13-173

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA

Award years – September 1, 2009 to August 31, 2012 and September 1, 2010 to August 31, 2013

Award numbers – CFDA 93.701, Trans-NIH Recovery Act Research Support, 3R01CA138239-02-S1 and 5RC2DE020958-02 and CFDA 93.715, Recovery Act – Comparative Effectiveness Research - AHRQ, 1R18HS019354-01-A2

Type of finding – Significant Deficiency and Non-Compliance

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 number, and the amount of Recovery Act funds; and (3) require their subrecipients to include on their schedules of expenditures of federal awards information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Initial Year Written: 2012
Status: Implemented

U.S. Department of Health and Human Services

The University of Texas M. D. Anderson Cancer Center (Cancer Center) did not always notify subrecipients of required Recovery Act information at the time of award and disbursement of funds. Specifically:

- For 1 (7 percent) of 15 Recovery Act subawards tested, the Cancer Center did not identify required Recovery Act information to the subrecipient at the time of the disbursement of funds.

- For 2 (13 percent) of 15 Recovery Act subawards tested, the Cancer Center did not send the required notification of Recovery Act information at the time it made those subawards.

The Cancer Center uses an attachment to communicate Recovery Act information in its subawards, and it notifies subrecipients of Recovery Act information at the time of disbursement through emails. However, for the errors identified above, the Cancer Center did not consistently send those communications. Inadequate identification of Recovery Act information at the time of award and disbursement by the Cancer Center may lead to improper reporting of federal funds in a subrecipient's schedule of expenditures of federal awards.

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 13-174

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Award years – September 13, 2010 to December 30, 2012 and September 4, 2003 to February 28, 2014

Award numbers – CFDA 93.855, Allergy, Immunology and Transplantation Research, 2R44AI055225-03 and 5U54AI057156-09

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs

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).

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Health and
Human Services

One (2 percent) of 65 direct cost transactions tested at the University of Texas Medical Branch at Galveston (Medical Branch) was unallowable. The Medical Branch reimbursed \$11 in gratuity charges as part of a travel reimbursement. The gratuity charge was misidentified as a food expense during the travel reimbursement process. After auditors identified this issue, the Medical Branch removed the cost of the gratuity from the federal account and reduced a subsequent federal reimbursement request by the amount of the gratuity.

Recommendation:

The Medical Branch should establish and implement procedures to ensure that it does not charge unallowable costs to federal awards.

Management Response and Corrective Action Plan 2012:

Management agrees with the auditor's recommendation and will take steps to review and update our institutional travel procedures to ensure that unallowable costs are not charged to federal awards.

Management Response and Corrective Action Plan 2013:

The Accounts Payable and Travel sections of UTMB are currently reviewing and updating our institutional travel procedures to ensure that unallowable costs are not charged to federal awards. We have already implemented a process change for additional review by Accounts Payable of travel and expense reimbursements on federal funds.

Implementation Date: February 28, 2014

Responsible Persons: Ken Hall

Indirect Costs

The negotiated rates for facilities and administration costs in effect at the time of the initial award shall be used throughout the life (each competitive segment of a project) of the sponsored agreement. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement (Title 2, CFR, Part 220, Appendix A, Part G, Section 7(a)).

The Medical Branch charged an incorrect indirect cost rate for 2 (3 percent) of 60 indirect cost charges tested. That occurred because the Medical Branch entered an incorrect indirect cost rate into its financial system. As a result, the Medical Branch overcharged the federal award by \$1,854 during fiscal year 2012. After auditors identified this issue, the Medical Branch transferred the charges to an institutional account and reduced a subsequent federal reimbursement request by that amount.

Corrective Action:

Corrective action was taken.

Internal Service Charges

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, CFR, 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 Circular A-133 Compliance Supplement, Part 3, Section B).

The Medical Branch did not always ensure that the costs of the services its service centers provided were designed to recover only the aggregate costs of the services. For 2 (10 percent) of 20 service centers tested, working capital reserves exceeded 60 days of cash expenses. During fiscal year 2012, those two service centers had 767 and 839 days worth of cash expenses in working capital reserves. The Medical Branch could not provide evidence of a consistent process for reviewing and adjusting service centers' rates or reviewing service centers' working capital reserves. Maintaining excessive working capital reserves increases the risk that federal awards are not charged an equitable rate and that service centers recover more than the aggregate costs of the services.

Recommendation:

The Medical Branch should establish and implement policies and procedures to ensure that it reviews service center rates at least every two years and that service centers' working capital reserves do not exceed 60 days of cash expenses.

Management Response and Corrective Action Plan 2012:

Management agrees with the auditor's recommendation and will take steps to establish and implement policies and procedures to ensure a review of service center rates occur at least every two years and that service centers' working capital reserves do not exceed 60 days of cash expenses. A service center monitoring matrix has been developed for service centers. A monitoring plan will be developed. The Grants and Contracts Accounting, General Accounting and Budget and Analysis offices will monitor each service center on a bi-annual basis. The Budget and Analysis office will complete the Annual Service Center Compliance Report on an annual basis for the service centers reviewed in that fiscal year.

Management Response and Corrective Action Plan 2013:

A monitoring plan identifying risks and monitoring steps has been developed and implemented. Financial Accounting and Reporting has begun using the review process in conjunction with the review of reconciliations. Policy and procedures and monitoring matrix/plan are being developed. The Grants and Contracts Accounting, General Accounting and Budget and Analysis offices will monitor each service center on a bi-annual basis. The Budget and Analysis office will complete the Annual Service Center Compliance Report on an annual basis for the service centers reviewed in that fiscal year.

Implementation Date: February 28, 2014

Responsible Persons: Glenita Segura

Reference No. 13-175

Equipment and Real Property Management

Research and Development Cluster

Award years – Unknown

Award numbers – Unknown

Type of finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2012
Status: Partially Implemented

Federal Agencies that Provide R&D Awards

A recipient’s property management standards for equipment acquired with federal funds and federally-owned equipment shall 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 causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and 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 Medical Branch at Galveston (Medical Branch) did not always maintain adequate property records or adequately safeguard its equipment. For 2 (3 percent) of 60 equipment items tested, the Medical Branch’s property records did not contain information on the ultimate disposition of the items. Specifically:

- For one item, the property records indicated that the item was in service; however, the Medical Branch had sold that item. The Medical Branch provided disposal documentation for that item after auditors identified this issue.
- For one item, the property records indicated that the item was in service, but the Medical Branch asserted that it had sold that item. However, the Medical Branch could not provide documentation showing that the item had been sold or the location of the item, and the item is now considered missing. There were no questioned costs associated with that item because the federal award the Medical Branch used to purchase that item was complete; as a result, the Medical Branch had ownership of that item.

At the time the Medical Branch disposed of those items, its process for the disposal of auctioned assets was to remove the asset tag from the item and send it to asset management accounting for entry into the asset management system. However, that process was not always effective in ensuring that the Medical Branch adequately documented the disposal of equipment in its property records.

Without properly maintaining property records with ultimate disposition data, the Medical Branch cannot ensure that it adequately safeguards equipment, which increases the risk that assets may be unidentified, lost, or stolen.

Recommendations:

The Medical Branch 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 loss, damage, or theft of equipment.

Management Response and Corrective Action Plan 2012:

UTMB concurs with the recommendation. The two (2) items in question were disposed of during FY 2010. During that time, communication of items disposed of via auction involved the physical transfer of property tags removed by Surplus Warehouse personnel to the Asset Management (AM) accounting group. The manual nature of this process provided opportunity for auctioned assets to remain on UTMB's property records post auction.

Since then, the process has been modified and controls strengthened. Currently, the Surplus Warehouse scans all asset tags that are disposed of and an electronic file is created and sent to Asset Management. The file is not only used to effectively communicate auctioned assets, but also to appropriately and timely remove the assets from the property records. Tags being misplaced in transit from the Surplus Warehouse are no longer an issue and Asset Management no longer relies upon physical inventory tags to initiate manual asset processing.

Management Response and Corrective Action Plan 2013:

Asset Management will review the Asset Management Handbook to ensure there is verbiage related to the return of equipment under a warranty. Any updates will be communicated to the asset custodians.

Implementation Date: February 2014

Responsible Person: Craig Ott

Reference No. 13-176

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster – ARRA

Award years – August 1, 2010 to July 31, 2012; August 1, 2009 to July 31, 2012; and July 1, 2011 to June 30, 2013

Award numbers – CFDA 93.701, Trans-NIH Recovery Act Research Support, 7U01AI082197-02, 5U01AI082202-02, 5U01AI082103-02, and 5U01AI082960-02

Type of finding –Significant Deficiency and Non-Compliance

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 schedules of expenditures of federal awards information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Initial Year Written: 2012
Status: Implemented
U.S. Department of Health and Human Services

The University of Texas Medical Branch at Galveston (Medical Branch) did not send all of the required notifications at the time of disbursement of funds to all six of its Recovery Act subrecipients that received disbursements during fiscal year 2012. The Medical Branch sent letters to its subrecipients with each disbursement that included the amount of Recovery Act funds disbursed; however, the letters did not include all of the required Recovery Act information, including the federal award number and the CFDA number. Inadequate identification of Recovery Act awards and disbursements by the Medical Branch may lead to improper reporting of federal funds in subrecipients' schedules of expenditures of federal awards.

Corrective Action:

Corrective action was taken.

University of Texas at San Antonio

Reference No. 13-178

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles**

Research and Development Cluster

Award year – July 1, 2011 to December 31, 2011

Award number – CFDA 47.041, Engineering Grants, IIP-1110189

Type of finding – Significant Deficiency

Allowable costs must be reasonable, allocable to sponsored agreements, and treated consistently. A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement or it benefits both the sponsored agreement and other work at the institution, in proportions that can be approximated through reasonable methods (Title 2, Code of Federal Regulations, Section 220, Appendix A, (C)(2-4(a))). 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, Appendix A, (C)(4)(b)).

Initial Year Written: 2012
Status: Implemented

National Science Foundation

The University of Texas at San Antonio (University) charged non-federal expenditures to a federal grant account but subsequently corrected that error. Specifically, for 2 (3 percent) of 60 transfers tested, the University charged non-federal expenditures totaling \$863 to a federal grant account while waiting for an institutional account to be established for fiscal year 2012. The University transferred the non-federal charges from the federal grant account to the institutional account after the institutional account was established. The two expenditures were part of a larger transaction that included 13 additional non-federal expenditures totaling \$6,898 that were originally charged to the federal grant account while waiting for the institutional account to be established. The University did not charge indirect costs on the 15 expenditures and did not request reimbursement for those 15 expenditures. Those errors occurred because the University incorrectly approved those expenditures when they were not associated with a federal grant.

Without the proper levels of review and approval, there is a risk that inappropriate and unallowable expenditures could be charged to federal grants.

Corrective Action:

Corrective action was taken.

Reference No. 13-179

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster – ARRA

Award years – August 1, 2009 to July 31, 2013; August 15, 2009 to September 30, 2013; and August 1, 2009 to January 31, 2012

Award numbers – CFDA 47.082, Trans-NSF Recovery Act Research Support, CNS-0855247 and HRD 0932339 and CFDA 16.808, Recovery Act – Edward Byrne Memorial Competitive Grant Program, 2009-SC-B9-0101

Type of finding – Significant Deficiency and Non-Compliance

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 schedules of expenditures of federal awards information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Initial Year Written: 2012
Status: Implemented

National Science Foundation
U.S. Department of Justice

The University of Texas at San Antonio (University) did not send the required notifications at the time of disbursement of funds to all four Recovery Act subrecipients to which it made disbursements during fiscal year 2012. The University did not have a process to ensure that it sent those notifications when it disbursed funds. Without receiving notifications at the proper time, subrecipients could report inaccurate Recovery Act expenditures.

Corrective Action:

Corrective action was taken.

University of Texas Southwestern Medical Center

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

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)).

Initial Year Written: 2010
Status: Implemented

U.S. Department of Health
and Human Services

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.

Corrective Action:

Corrective action was taken.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Research and Development Cluster, the objectives of this audit were to (1) obtain an understanding of internal controls over compliance, assess control risk of noncompliance, and perform tests of those controls unless 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.

Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2012, through August 31, 2013. The audit work included control and compliance tests at six higher education institutions and one agency across the state.

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was direct and material to the Research and Development Cluster at each higher education institution and agency audited.

Auditors selected non-statistical samples for tests of compliance and controls for each direct and material compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2013. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population but the accuracy of the extrapolation cannot be measured. In some cases, auditors used professional judgment to select additional items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

Auditors conducted tests of compliance and of controls identified for each direct and material compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data provided by each higher education institution and agency audited and determined that the data 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.

Information collected and reviewed included the following:

- Higher education institution and agency expenditure, procurement, equipment, reporting, cash draw, and subrecipient data.
- Federal notices of award and award proposals.
- Transactional support related to expenditures, procurement, and revenues.
- Higher education institution and agency reports and data used to support reports, revenues, and other compliance areas.
- Information system support for higher education institution and agency 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 higher education institution or agency 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.
- U. S. Office of Management and Budget Circulars A-21, A-102, A-110, and A-133.
- The American Recovery and Reinvestment Act.
- The Federal Funding Accountability and Transparency Act.
- Federal notices of award and award proposals.

- Higher education institution and agency policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.

Project Information

Audit fieldwork was conducted from September 2013 through January 2014. 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.

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