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, 2014

February 2015

Report No. 15-022

State Auditor's Office
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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster in fiscal year 2014.

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.

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[1] 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 $73,923,376 in federal funds during fiscal year 2014 and (2) other selected federal programs.

[1] Title 2, Code of Federal Regulations, Section 200, supersedes OMB Circular A-133 and, for fiscal years beginning on or after December 26, 2014, increases the Single Audit threshold to $750,000 in federal expenditures in a fiscal year.

This audit was conducted in accordance with Title 31, United States Code, Section 7502.

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

From September 1, 2013, through August 31, 2014, the State of Texas expended $49.1 billion in federal funds. The State Auditor's Office audited compliance with requirements for the Research and Development Cluster at seven higher education institutions (see text box). Those entities spent $801.7 million in federal Research and Development Cluster funds during fiscal year 2014.

Higher Education Institutions Audited

- Texas A&M University – Corpus Christi
- Texas Tech University
- The University of Houston
- The University of Texas at Austin
- The University of Texas Health Science Center at Houston
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Medical Branch at Galveston

Auditors identified 16 findings for the Research and Development Cluster, including:

- Fifteen findings classified as significant deficiencies and non-compliance.
- One finding classified as a significant deficiency.

(See text box for definitions of finding classifications.)

Finding Classifications

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

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

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

Key Points

The higher education institutions 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.

The University of Houston and the University of Texas Health Science Center at Houston each charged unallowable costs to federal awards. Those costs were for meal- and alcohol-related expenditures.

The University of Houston did not always certify time and effort reports within the required time period. The University of Texas M.D. Anderson Cancer Center did not always adjust salaries based on after-the-fact effort confirmation.

The University of Houston and the University of Texas M.D. Anderson Cancer Center did not have effective controls to help ensure that salaries they charged to National Institutes of Health grants did not exceed individual salary limitations established by the National Institutues of Health.

Two higher education institutions audited did not always comply with requirements related to the period of availability of federal funds.

The University of Houston and the University of Texas Health Science Center at Houston did not always incur costs within the period of availability and did not always liquidate obligations within the required time period.

Five of seven higher education institutions audited did not always comply with federal reporting requirements.

Texas A&M University – Corpus Christi, Texas Tech University, the University of Houston, the University of Texas M.D. Anderson Cancer Center, and the University of Texas Medical Branch at Galveston did not always report their subawards accurately or in a timely manner, as required by the Federal Funding Accountability and Transparency Act.

Texas A&M University – Corpus Christi, Texas Tech University, the University of Houston, and the University of Texas M.D. Anderson Cancer Center did not always ensure that their financial reports were accurate and supported by applicable accounting records.

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

The University of Texas at Austin, the University of Texas M.D. Anderson Cancer Center, and the University of Texas Medical Branch at Galveston did not always adhere to state and federal equipment requirements or their procedures for facilitating compliance with those requirements. They did not always maintain adequate property records for equipment.

The higher education institutions audited did not always comply with federal requirements related to monitoring of awards passed through to non-state entities.

The University of Texas Health Science Center at Houston did not always obtain the required subrecipient Single Audit reports.

The University of Texas M.D. Anderson 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.

The University of Texas Health Science Center at Houston and the University of Texas M.D. Anderson Cancer Center did not always obtain a Data Universal Numbering System (DUNS) number from subrecipients prior to making subawards.

The University of Texas Health Science Center at Houston and the University of Texas M.D. Anderson Cancer Center did not always include federal award identification requirements or applicable compliance requirements in their subaward agreements and/or disbursements to the subrecipients. That included

subawards made with American Recovery and Reinvestment Act (Recovery Act) funds.

Auditors followed up on higher education institutions' 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 15 (52 percent) of those 29 findings and partially implemented corrective action plans for 14 (48 percent) of those 29 findings. Two of those 15 findings with fully implemented corrective action plans were no longer valid because (1) one finding was related to Recovery Act awards that have ended and (2) for one finding, auditors are no longer required to report audit findings based solely on the tests for suspended and debarred "principals" pursuant to the OMB *Compliance Supplement*.

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 audited. At two higher education institutions audited, auditors identified control weaknesses related to user access, including high-level user access and periodic review of user access.

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, 2013, through August 31, 2014. The audit work included control and compliance tests at seven higher education institutions 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 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, 2014. Auditors conducted tests of compliance and of the controls identified for each direct and material compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data that each audited 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, 2014

State Auditor's Office
John Keel, CPA
State Auditor

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 Greg Abbott, Governor
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, 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, 2014. The State's major federal program at various higher education institutions is 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, 2014. 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, 2014. 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.

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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.

Opinion on the Research and Development Cluster

In our opinion, 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, 2014.

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:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
Texas A&M University – Corpus Christi	Research and Development Cluster	Reporting	2014-117
Texas Tech University	Research and Development Cluster	Reporting	2014-130
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed	2014-141
	Research and Development Cluster – ARRA	Allowable Costs/Cost Principles	
	Research and Development Cluster	Period of Availability of Federal Funds	2014-142
		Reporting	2014-143
University of Texas at Austin	Research and Development Cluster	Equipment and Real Property Management	2014-155
University of Texas Health Science Center at Houston	Research and Development Cluster	Activities Allowed or Unallowed	2014-156
		Allowable Costs/Cost Principles	
	Research and Development Cluster	Period of Availability of Federal Funds	2014-157
	Research and Development Cluster - ARRA		
		Subrecipient Monitoring	2014-158
		Special Tests and Provisions – R3 – Subrecipient Monitoring	
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed	2014-159
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
	Research and Development Cluster	Equipment and Real Property Management	2014-160
		Reporting	2014-161

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
	Research and Development Cluster	Subrecipient Monitoring	2014-162
	Research and Development Cluster – ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	
University of Texas Medical Branch at Galveston	Research and Development Cluster	Equipment and Real Property Management	2014-163
		Reporting	2014-164

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.

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 to detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, 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:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
Texas A&M University – Corpus Christi	Research and Development Cluster	Activities Allowed or Unallowed	2014-116
	Research and Development Cluster - ARRA	Allowable Costs/Cost Principles	
	Research and Development Cluster	Reporting	2014-117
Texas Tech University	Research and Development Cluster	Reporting	2014-130
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed	2014-141
	Research and Development Cluster – ARRA	Allowable Costs/Cost Principles	
	Research and Development Cluster	Period of Availability of Federal Funds	2014-142
		Reporting	2014-143
University of Texas at Austin	Research and Development Cluster	Equipment and Real Property Management	2014-155
University of Texas Health Science Center at Houston	Research and Development Cluster	Activities Allowed or Unallowed	2014-156
		Allowable Costs/Cost Principles	
	Research and Development Cluster	Period of Availability of Federal Funds	2014-157
	Research and Development Cluster – ARRA		
		Subrecipient Monitoring	2014-158
		Special Tests and Provisions – R3 – Subrecipient Monitoring	
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed	2014-159
	Research and Development Cluster – ARRA	Allowable Costs/Cost Principles	
		Cash Management	
		Period of Availability of Federal Funds	
	Research and Development Cluster	Equipment and Real Property Management	2014-160
		Reporting	2014-161
	Research and Development Cluster	Subrecipient Monitoring	2014-162
	Research and Development Cluster – ARRA	Special Tests and Provisions – R3 – Subrecipient Monitoring	
University of Texas Medical Branch at Galveston	Research and Development Cluster	Equipment and Real Property Management	2014-163
		Reporting	2014-164

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, 2014, 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, 2014*.

John Keel, CPA
State Auditor

February 20, 2015

Schedule of Federal Program Expenditures for the Research and Development Cluster For the State of Texas For the Year Ended August 31, 2014

Schedule of Federal Program Expenditures			
Higher Education Institution Audited	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Texas A&M University – Corpus Christi			
Other Than American Recovery and Reinvestment Act	$ 193,679	$ 6,009,418	$ 6,203,097
American Recovery and Reinvestment Act	0	23,428	23,428
Texas Tech University			
Other Than American Recovery and Reinvestment Act	1,946,480	29,340,035	31,286,515
American Recovery and Reinvestment Act	0	381,521	381,521
University of Houston			
Other Than American Recovery and Reinvestment Act	3,369,824	51,006,622	54,376,446
American Recovery and Reinvestment Act	3,818	714,008	717,826
University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	17,308,654	299,763,703	317,072,357
American Recovery and Reinvestment Act	1,812,414	6,315,284	8,127,698
University of Texas Health Science Center at Houston			
Other Than American Recovery and Reinvestment Act	21,909,593	103,907,539	125,817,132
American Recovery and Reinvestment Act	765,810	2,758,479	3,524,289
University of Texas M.D. Anderson Cancer Center			
Other Than American Recovery and Reinvestment Act	11,631,440	142,074,731	153,706,171
American Recovery and Reinvestment Act	3,599	613,526	617,125
University of Texas Medical Branch at Galveston			
Other Than American Recovery and Reinvestment Act	7,417,681	92,402,919	99,820,600
American Recovery and Reinvestment Act	0	0	0
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	$ 63,777,351	$ 724,504,967	$ 788,282,318
Total Audited Research and Development American Recovery and Reinvestment Act	$ 2,585,641	$ 10,806,246	$ 13,391,887
Total Audited	**$66,362,992**	**$735,311,213**	**$801,674,205**

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 *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014.*

Note 2: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled $714.6 million for the year ended August 31, 2014. Of that amount, $3.3 million was American Recovery and Reinvestment Act expenditures.

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 *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014.*

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, 2014

Section 1:

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

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

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

Dollar threshold used to distinguish between type A and type B programs: $73,923,376

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, 2014*.

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 University – Corpus Christi

Reference No. 2014-116
Activities Allowed or Unallowed
Allowable Costs/Cost Principles

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

Questioned Cost: $ 0

Federal agencies that award R&D funds

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)).

Texas A&M University – Corpus Christi (University) follows Texas A&M University System (System) policies, in addition to its supplemental University policy. The System policy requires system administrators or designated staff to have a documented process for periodically reviewing existing user access accounts for validity. The System's *Administrator and Special Access Policy* also requires departments to maintain a list of personnel who have administrator or special access accounts for departmental information resource systems. That list must be reviewed at least annually by the appropriate department head, director, or a designee.

The University did not maintain adequate user access over its Electronic Time and Effort System or its TimeTraq application, which it uses to track time and effort for exempt and non-exempt University employees, respectively. Specifically:

- One user had domain administrator-level access at the network and server levels for the Electronic Time and Effort System and the TimeTraq application. That access did not align with the employee's job duties.
- One user had both server-level access to deploy Web applications and development responsibilities for the Electronic Time and Effort System and the TimeTraq application.
- Two users had system administrator roles for support of the TimeTraq application when they no longer performed those duties.
- Two developers for the Electronic Time and Effort System had access to migrate their own code into the production environment.

The University did not conduct periodic reviews of the TimeTraq application or the Electronic Time and Effort System at any level to ensure that access was appropriate for users' job duties, as required by policy.

Not maintaining appropriate access increases the risk of unauthorized access to or modification of data.

Recommendations:

The University should:

- Limit user access to its network and the TimeTraq and Time and Effort System servers and applications to help ensure that access is appropriate for users' job responsibilities.
- Segregate job responsibilities to ensure that unauthorized code changes cannot be placed into the production environment.
- Develop and implement a periodic review of user accounts for TimeTraq and the Time and Effort System.

Management Response and Corrective Action Plan:

Recommendation 1: Limit User Access

The Texas A&M System Offices acknowledges that the user with domain administrator access did not require that access to perform the user's job duties. The System Offices removed that user from the domain administrator group. Additionally, the System Offices will no longer place users in the domain administrators group of a server unless that user's job duties require access. Access to server administrator groups for TimeTraq and Time and Effort will be reviewed at least quarterly for appropriate access.

Implementation date: *February 28, 2014*

Responsible Person: *Mark Schulz*

Recommendation 2: Segregation of Job Responsibilities

The Texas A&M System Offices acknowledges that the development manager has server level access and also oversees and performs developer functions. Additionally, the A&M System Offices also acknowledges that the development manager and another senior level developer (the manager's backup) can migrate code to the production branch and also deploy a build of the application. We agree that is it important to segregate duties and establish controls so that individuals who modify code cannot migrate the code to the production environment without another person's approval and review. We believe that controls are in place to insure review by another person as well as end-user and/or owner approval of each change. All code is managed tightly in a source control system, and code reviews are part of the process for every change. All code changes and deployments are fully logged. Before code is migrated to production, it has been seen by at least two people, tested, and accepted by the owner according to the defined process. Additionally, current movements in the software industry (i.e. "devops") have shown that keeping the developers involved and closer to the deployment process increases the overall quality, stability, and integrity of software applications. We continue to review our process and look at ways to efficiently deploy new features to our software applications while maintaining appropriate controls.

Implementation date: *Already implemented*

Responsible Person: *Mark Schulz*

Recommendation 3: Periodic Review of User Access

The Texas A&M System Offices acknowledges that the two users with administrator roles were no longer involved in active support of the application. Access to TimeTraq for those individuals has been removed. The Texas A&M System Offices will implement a new procedure to review the roles of users in support roles. When a user's job duties change and the support role is no longer performed, that access will be removed.

Implementation date: *February 28, 2014*

Responsible Person: *Mark Schulz*

Reference No. 2014-117

Reporting

Research and Development Cluster
Award years – September 1, 2012 to August 31, 2015; July 26, 2012 to August 31, 2014; September 30, 2012 to March 18, 2015; and September 25, 2013 to March 31, 2014
Award numbers – CFDA 10.318, Women and Minorities in Science, Technology, Engineering, and Mathematics Fields, 2012-38503-20278; CFDA 10.652, Forestry Research, 12-DG-11330101-096; CFDA 12.630, Monitor, Analysis, and Interpretation of Hydrodynamic and Sediment Transport System, W912HZ-12-C-0066; and CFDA 93.310, Trans-NIH Research Support, 1P20MD008690-01
Type of finding – Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

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

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 Standard Form 425 (SF-425) or the Request for Advance or Reimbursement Standard Form 270 (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.

Texas A&M University – Corpus Christi (University) did not always ensure that it submitted financial reports or that the reports it submitted were accurate and complete. Specifically, the University did not submit the SF-425 for 1 (14 percent) of 7 financial reports tested. That occurred because the University did not have an internal process for tracking financial report due dates.

In addition, the University did not ensure that 1 (17 percent) of the 6 remaining SF-425s tested was accurate. For the cash receipts amount on that SF-425, the University reported total expenditures instead of the actual cash received from the sponsor. The University included a receivable in the cash receipts amount that was not identified during the review and approval process. As a result, it overstated the cash receipts and the cash on hand amounts in that report by $815. In addition, the University did not document its review and approval of another financial report tested; however, the information in that report was accurate.

Inaccurate 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 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).

The University did not always submit Transparency Act reports in a timely manner. Specifically, the University did not submit 2 (67 percent) of 3 Transparency Act reports tested by the last day of the month following the month in which the subaward obligations were made. The University submitted both reports one month late due to a manual error. While the University uses a spreadsheet to track Transparency Act reports, it does not have a review and approval process to ensure that reports are complete and accurate and that it submits reports in a timely manner.

Not reporting subaward information 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:

- Strengthen controls to ensure that the federal financial reports it submits are complete and accurate.
- Strengthen controls to ensure that it submits reports for all subawards that are subject to Transparency Act requirements in a timely manner.

Management Response and Corrective Action Plan:

Texas A&M University-Corpus Christi acknowledges and agrees with the findings that it did not always ensure that it submitted financial reports or that the reports it submitted were accurate and complete. The Office of Sponsored Research Administration reviewed its internal procedures and has implemented the following additional steps to strengthen controls and assure that reports are complete, accurate and submitted in a timely manner:

- *Supervisory review of financial reports is performed to assure accuracy and completeness of data and information included in the reports.*
- *Implementation of Maestro Project Module, a sponsored research administration system, which allows to monitor and analyze award and research expenditure activity. The system utilizes a notification functionality that creates reminders to the assigned responsible person when financial reports are due and assures timely submission of required reporting.*
- *Supervisory review and approval process of all subawards that require FFATA reporting to assure that reports are completed, accurate and that the reports are submitted in a timely manner.*

Implementation Date: *Already implemented*

Responsible Person: *Mayra A. Hough*

Texas Tech University

Reference No. 2014-130

Reporting

Research and Development Cluster
Award years – April 15, 2011 to April 14, 2014; August 15, 2006 to September 30, 2013; September 14, 2010 to September 15, 2013; June 1, 2012 to May 31, 2017; July 1, 2012 to June 30, 2015; and July 1, 2012 to June 30, 2015
Award numbers – CFDA 12.800, Air Force Defense Research Sciences Program, FA9550 11 1 0027; CFDA 81.087, Renewable Energy Research and Development, DE FG36 06GO86092; CFDA 12.910, Research and Technology Development, FA2386 10 1 4165; CFDA 12.300, Basic and Applied Scientific Research, N00014-12-1-0525; CFDA 47.041, Engineering Grants, ECCS - 1200168; and CFDA 93.865, Child Health and Human Development Extramural Research, 1R15HD071514-01A1
Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

Questioned Cost: $ 0

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

Institutions shall maintain internal controls 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 Subchapter C, Section 300(b)).

Texas Tech University (University) does not have sufficient controls in place to ensure that it submits complete and accurate final financial reports. For 3 (75 percent) of 4 final financial reports tested, the University did not review the reports or obtain approval of the reports from an individual other than the preparer.

Auditors did not identify significant non-compliance in a sample of financial reports tested; however, the absence of reviews increases the risk that information intended for the federal government and the public could be incomplete or inaccurate.

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, Code of Federal Regulations, Chapter 170).

The University did not ensure that it consistently submitted Transparency Act reports within the required time frames and for the correct amounts. Specifically, for 1 (20 percent) of 5 reports tested, the University incorrectly reported the amount of the subaward by $25,000. In addition, the University did not submit 3 (60 percent) of 5 reports tested by the last day of the month following the month in which the subaward obligations were made. It submitted those 3 reports between 43 and 219 days late. Those errors occurred because the University did not have policies and procedures for Transparency Act reporting prior to June 2014.

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

Recommendations:

The University should:

- Develop and implement controls over its financial reporting process.
- Develop and implement a process to ensure that it reports subawards that are subject to Transparency Act requirements in a timely and accurate manner.

Management Response and Corrective Action Plan:

Finding: Financial Reporting

The Office of Research Accounting (ORA) has a documented policy requiring final financial reports to be reviewed at award closeout by the project manager. For the reports tested, the final report and award closeout were completed by the project manager. ORA has revised its policy to now require a higher level review for all final, federal reports.

Implementation Date: *October 2014*

Responsible Person: *Simone Hasie*

Finding: Federal Funding Accountability and Transparency Act Reporting

Response: ORA implemented policies and procedures in June 2014. ORA management will continue to monitor the process to ensure the accurate and complete reporting of subawards in accordance with the Transparency Act.

Implementation Date: *June 2014*

Responsible Person: *Simone Hasie*

University of Houston

Reference No. 2014-141
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 – Significant Deficiency and Non-Compliance

Payroll Expenditures

Questioned Cost: $9,875

National Aeronautics and Space Administration
National Endowment for the Humanities
National Science Foundation
U.S. Department of Defense
U.S. Department of Education
U.S. Department of Energy
U.S. Department of Health and Human Services

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, the reports will be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations (CFR), Section 220, Appendix A (J)(10)).

According to the University of Houston's (University) effort reporting policy, employees must certify their time and effort reports in accordance with a quarterly schedule published in the policy. **For 29 (69 percent) of 42 payroll transactions tested, the University did not certify time and effort reports within the required time period.** Specifically:

- For 19 payroll transactions, the due date for time and effort certifications had passed and the University had not completed those certifications. All 19 of these transactions occurred within the third and fourth quarters of the certification year. According to the University, the third and fourth quarter time and effort certifications were delayed because of the implementation of a new timekeeping system.
- For 6 payroll transactions, the University completed time and effort certifications, but the principal investigator signed those certifications between 107 and 228 days after the certification due date in the University's policy. Those transactions occurred within the first and second quarters of the certification year.
- For 3 payroll transactions that occurred in the first and second quarters of the certification year, the time and effort certification was signed but not dated; therefore, auditors could not determine whether the certifications were completed prior to the due date in the University's policy.
- For 1 payroll transaction, the time and effort certification for the third quarter was not signed by the principal investigator.

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.

Payroll Salary Restrictions

Every year since 1990, the U.S. Congress has legislatively mandated a provision limiting the direct salary that an individual may receive under a National Institutes of Health (NIH) grant. The amount of direct salary to executive level II of the federal executive pay scale was restricted to $179,700 from December 23, 2011, through January 11, 2014. The executive level II salary restriction increased from $179,700 to $181,500 effective January 12, 2014 (NIH Notice Number NOT-OD-14-052).

The University's research effort reporting policy states that, in instances in which federal regulations do not allow for salaries in excess of statutory or regulatory salary caps, the amount of a faculty member's salary to be charged to a grant is determined based on the percentage of effort to be devoted to the grant.

The University does not have effective controls to help ensure that it limits the salaries charged to NIH grants. The University performs a quarterly analysis to determine whether employees on NIH grants charge less than the monthly salary cap amount to the grant. However, the University does not consider the percentage of effort that each employee spends on a grant when it performs that analysis. Auditors tested the first and second quarters of fiscal year 2014 and identified salary costs for five employees totaling $9,875 that were overcharged to six NIH awards as a result of that error. Auditors were not able to test the third and fourth quarters of fiscal year 2014 because of the time and effort delays discussed above that resulted from the University's implementation of a new timekeeping system.

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, CFR, Section 220, Appendix A, C.2).

Four (5 percent) of 74 direct cost transactions tested at the University were unallowable. Three of those transactions were for meals and alcohol that were charged to federal awards that did not allow or specifically disallowed those types of expenditures; the fourth transaction was for an unallowable late payment fee. The University corrected all of those errors; therefore, there were no questioned costs.

The following awards were affected by the payroll expenditures issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00014-13-1-0543	May 1, 2013 to April 30, 2016
43.001	Science	T72314	May 1, 2013 to September 30, 2014
47.041	Engineering Grants	ECCS-1102195	September 1, 2011 to August 31, 2015
47.041	Engineering Grants	ECCS-0926006	September 1, 2009 to August 31, 2014
47.049	Mathematical and Physical Sciences	CHE-0956127	October 1, 2010 to September 30, 2015
47.049	Mathematical and Physical Sciences	CHE-1213646	August 15, 2012 to July 31, 2015
47.070	Computer and Information Science and Engineering	IIS-1111507	January 1, 2014 to December 31, 2014
47.074	Biological Sciences	DEB-1253650	April 1, 2013 to March 31, 2018
47.080	Office of Cyberinfrastructure	OCI-1148052	September 1, 2013 to May 31, 2015
81.000	Department of Energy	DE-EE0005806	September 1, 2012 to February 28, 2015

CFDA No.	CFDA Title	Award Number	Award Year
81.049	Office of Science Financial Assistance Program	DE-SC0006771	September 15, 2011 to September 14, 2015
81.049	Office of Science Financial Assistance Program	DE-FG02-07ER41521	November 15, 2013 to November 14, 2014
81.049	Office of Science Financial Assistance Program	DE-SC0008073	July 1, 2012 to June 30, 2015
81.105	National Industrial Competitiveness through Energy, Environment, and Economics	1452262	May 6, 2014 to September 1, 2014
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	DE-OE0000485	July 1, 2010 to December 30, 2014
81.135	Advanced Research Projects Agency - Energy	DE-AR0000196	January 1, 2012 to June 30, 2015
84.305	Education Research, Development and Dissemination	R305A090555	July 1, 2009 to June 30, 2014
84.305	Education Research, Development and Dissemination	UTA10-000725	July 1, 2010 to June 30, 2015
84.324	Research in Special Education	R324C08006	July 1, 2008 to June 30, 2014
93.121	Oral Diseases and Disorders Research	3R01DE022676-02S1	September 1, 2012 to August 31, 2014
93.173	Research Related to Deafness and Communication Disorders	1R03DC012640-02	August 1, 2013 to July 31, 2016
93.242	Mental Health Research Grants	1R01MH097726-01A1	September 13, 2013 to July 31, 2014
93.273	Alcohol Research Programs	1R21AA020572-02	September 5, 2011 to June 30, 2014
93.310	Trans-NIH Research Support	5R01CA174385-02	September 19, 2012 to June 30, 2016
93.398	Cancer Research Manpower	1K01CA151785-01	February 1, 2011 to August 31, 2015

CFDA No.	CFDA Title	Award Number	Award Year
93.535	Affordable Care Act (ACA) Childhood Obesity Research Demonstration	5U18DP003350-03	September 29, 2011 to September 29, 2014
93.865	Child Health and Human Development Extramural Research	4R00HD061689-03	September 1, 2013 to August 31, 2014
93.866	Aging Research	5R01AG039836-04	September 15, 2011 to May 31, 2015
93.867	Vision Research	5P30EY007551-27	July 1, 2014 to June 30, 2015

The following awards were affected by the payroll salary restriction issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
93.103	Food and Drug Administration Research	FDAHHSF2232009	August 1, 2013 to December 31, 2013	$ 64
93.172	Human Genome Research	5U01HG006507-02	December 1, 2012 to November 30, 2013	417
93.279	Drug Abuse and Addiction Research Programs	R21DA029811	September 1, 2011 to February 28, 2014	5,890
93.867	Vision Research	5R01EY008128-24	February 1, 2010 to January 31, 2015	335
93.867	Vision Research	5R01EY001139-37	September 30, 2012 to August 31, 2017	1,893
93.867	Vision Research	1R01EY019105-04	April 1, 2009 to March 31, 2014	1,276
			Total Questioned Costs	$ 9,875

The following awards were affected by the issues discussed above in which the University charged unallowable costs:

CFDA No.	CFDA Title	Award Number	Award Year
43.000	National Aeronautics and Space Administration	NAS 9-02078	November 28, 2011 to June 30, 2014
45.129	Promotion of the Humanities - Federal/State Partnership	2014-4596	April 1, 2014 to May 31, 2014
93.310	Trans-NIH Research Support	3U54HG006348-03S1	August 31, 2013 to July 31, 2014

Recommendations:

The University should:

- Certify after-the-fact time and effort reports in a timely manner according to its policy.
- Include the percentage of effort that each employee spends on a grant when it performs its NIH salary limits analysis.
- Charge only allowable costs to federal awards.

Management Response and Corrective Action Plan:

We are currently implementing MAXIMUS software for effort reporting, to help ensure that after-the-fact time and effort reports are completed in a timely manner. This software will also help ensure that the percentage of effort each employee spends on a sponsored project is considered when computing NIH salary limitations. We acknowledge that the five salaries charged to the NIH grants were over the monthly cap; however, only one of the salaries was not within the allowed variance per the University policy.

To help prevent unallowable costs from posting to sponsored projects in the future, we will modify our financial system to generate a warning message when specific unallowable expenditure accounts are used on federal fund cost centers.

Implementation Date: *September 2015*

Responsible Persons: *Beverly Rymer and Mike Glisson*

Reference No. 2014-142

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

Questioned Cost: $ 6,661

U.S. Department of Defense
U.S. Department of Energy
U.S. Department of Health and Human Services
Environmental Protection Agency
National Aeronautics and Space Administrataion

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).

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).

The University of Houston (University) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. Specifically:

- For 3 (5 percent) of 62 transactions and adjustments tested, the University incurred the underlying expenditures outside the period of availability of the award. The University corrected one of those transactions after auditors brought it to the University's attention; however, it did not correct the remaining 2, resulting in total questioned

costs of $6,661 associated with award number N00014-11-1-0069. The two transactions were payroll transactions for a pay period after the grant ended; the University had not corrected those charges at the time of the audit.

- For all 9 original transactions tested, the University did not liquidate the obligation within 90 days after the end of the funding period. The University liquidated the obligations associated with those 9 transactions between 91 and 199 days after the end of the funding period. For 3 of those 9 transactions, the University also did not incur the costs within the period of availability. Two of those transactions are discussed in the errors above and are included in the questioned costs of $6,661, and the University corrected the remaining transaction. The University incurred the other six transactions within the period of availability; therefore, there were no questioned costs related to those transactions.

The University's policy is to close out federal awards within 90 days after the expiration of the award. However, the University does not have an effective process to close grant accounts in its accounting system within the required 90-day closeout period after the end of the award funding period. In addition to the errors discussed above, auditors identified 6 additional transactions that removed project deficits more than 90 days after the grants had ended. Control weaknesses increase the risk of non-compliance with period of availability requirements in applicable laws, regulations, and the provisions of federal grant agreements.

The following awards were affected by the period of availability issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
12.000	Department of Defense	G105536	June 1, 2012 to February 28, 2013	$ 0
12.300	Basic and Applied Scientific Research	N00014-11-1-0069	October 1, 2010 to August 31, 2013	6,661
12.800	Air Force Defense Research Sciences Program	FA8650-05-D-1912	November 1, 2012 to November 29, 2013	0
12.910	Research and Technology Development	N66001-11-1-4015	January 3, 2011 to March 15, 2013	0
43.007	Space Operations	NNX13AH25G	November 6, 2012 to December 31, 2013	0
66.419	Water Pollution Control State and Interstate Program Support	582-10-90494-WO-22	February 19, 2013 to August 31, 2013	0
66.419	Water Pollution Control State and Interstate Program Support	582-10-90494-19	September 1, 2012 to August 31, 2013	0
81.000	Department of Energy	DE-AC02-05CH11231	December 14, 2012 to September 30, 2013	0
81.049	Office of Science Financial Assistance	DE-FG02-07ER41518	August 15, 2010 to March 14, 2014	0

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
	Program			
81.135	Advanced Research and Projects Agency - Energy Financial Assistance Program	DE-AR0000141	January 1, 2012 to July 31, 2013	0
93.213	Research and Training in Complementary and Alternative Medicine	5R01AT005522-04	September 1, 2012 to August 31, 2013	0
93.239	Policy Research and Evaluation Grants	60079362-104354-F	March 1, 2012 to September 29, 2013	0
			Total Questioned Costs	$6, 661

Recommendation:

The University should develop and implement a process to help ensure that it closes grant accounts in its accounting system within the required 90-day closeout period to help ensure that it complies with all period of availability requirements for federal awards.

Management Response and Corrective Action Plan:

We will modify our procedures to help ensure that we comply with all period of availability requirements for federal awards as specified by the new Uniform Administrative Requirements.

Implementation Date: *September 2015*

Responsible Person: *Beverly Rymer*

Reference No. 2014-143

Reporting

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

Questioned Cost: $ 0

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

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 Standard Form (SF)-425 to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425,

including definitions and requirements of key reporting elements.

The University of Houston (University) did not ensure that its financial reports were accurate and supported by applicable accounting records. Specifically, 4 (7 percent) of 60 financial reports tested did not accurately reflect the indirect costs, indirect cost base amounts, cash disbursement, and cash receipt amounts. The University does not have a consistent review and approval process to help ensure that financial reports are complete and accurate. Inaccurate 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 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).

The University did not submit the required Transparency Act reports within required time frames for all five reports tested. It submitted one of those five reports 96 days late; the remaining four reports were subaward modifications that the University did not report. The University asserted that it did not submit the subaward modifications because it was not aware of the requirement to report subaward actions after the initial subaward. In addition, the University does not have an effective monitoring process to help ensure that it submits reports in a timely manner when required.

Not reporting Transparency Act reports in a timely manner decreases the reliability and availability of information to the awarding agency and other users of that information.

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

CFDA No.	CFDA Title	Award Number	Award Year
43.001	Science	NNX10AL37G	April 12, 2010 to February 28, 2014
43.003	Exploration	NNX12AB48G	November 3, 2011 to November 2, 2015
81.087	Renewable Energy Research and Development	DE-EE0000295	November 1, 2009 to October 31, 2014
93.859	Biomedical Research and Research Training	5R01GM077635-05	June 5, 2007 to May 31, 2013

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

CFDA No.	CFDA Title	Award Number	Award Year
93.243	Substance Abuse and Mental Health Sciences-Projects of Regional and National Significance	1H79SP020184-01	September 30, 2013 to September 29, 2016
93.273	Alcohol Research Programs	5 R01 AA014576-10	September 6, 2004 to July 31, 2016
93.859	Biomedical Research and Research Training	5 R01 GM097553-03	September 30, 2011 to August 31, 2016

93.865	Child Health and Human Development Extramural Research	2P50HD052117-08	February 1, 2006 to November 30, 2016

Recommendations:

The University should:

- Strengthen controls to help ensure that the federal financial reports it submits are accurate and supported by applicable accounting records.
- Strengthen controls to help ensure that it accurately reports subawards and subaward modifications that are subject to Transparency Act requirements in a timely manner.

Management Response and Corrective Action Plan:

We will modify our procedures by requiring the financial manager to test the accuracy of financial reports prior to submission.

We have implemented procedures for the Federal Funding Accountability and Transparency Act (FFATA) reporting, which will help ensure that all required reports are prepared and submitted in a timely manner.

Implementation Date: *September 2015*

Responsible Person: *Beverly Rymer*

University of Texas at Austin

Reference No. 2014-155

Equipment and Real Property Management

(Prior Audit Issues 2013-176, 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

Questioned Cost: $ 0

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

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.

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 its equipment items. For 3 (5 percent) of 64 equipment items tested, the University's property records were inaccurate. For each of those three items, the information for one or more of the following was inaccurate: the item location, information on the transfer of an item to another institution, inventory tag numbers, serial numbers, or a condition code.

Those errors occurred as a result of weaknesses in the University's record keeping process. Not properly maintaining property records increases the risk that assets may be lost or stolen.

The issues above affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
12.000	Department of Defense	DAAA21-86-C-0215	July 21, 1986 to March 30, 1995
81.000	Department of Energy	111610917	October 1, 2006 to September 30, 2010
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	5 R01 EB008821-01,02,03,04	June 1, 2008 to March 31, 2013

Recommendation:

The University should strengthen controls to help ensure that it maintains accurate and complete property records.

Management Response and Corrective Action Plan:

The University concurs with the finding.

Management at The University of Texas at Austin is committed to ensuring the overall financial integrity relative to inventory oversight. Steps taken to demonstrate this commitment include reorganizing Inventory Services and hiring staff to implement process improvements ensuring compliance and data integrity over property management. Inventory Services will continue to reach out to University Business Officers and Department Inventory Leads for their support in improving inventory controls. This commitment is demonstrated through on-going efforts such as departmental spot reviews, on-going training, and year-round communication. This finding will be shared with the appropriate institutional personnel to emphasize the importance of compliance. Inventory Services will continuously seek to identify and implement process improvements to ensure controls over property management.

Implementation Date: *August 2015*

Responsible Person: *Jose Rios*

University of Texas Health Science Center at Houston

Reference No. 2014-156
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 the application of generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in sponsored agreements as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220, Appendix A, (C)(2)).

Questioned Cost: $0

U.S. Department of Health and Human Services

Three (4 percent) of 73 direct cost transactions tested at the University of Texas Health Science Center at Houston (Health Science Center) were unallowable. The Health Science Center charged unallowable meals and alcohol to federal awards. Specifically:

- A project-related travel reimbursement included a $12 charge for alcohol. That error occurred because the Health Science Center's reviews of expenses prior to payment did not identify the alcohol item on the receipt.
- A project-related meal reimbursement included a $60 expense for the principal investigator's spouse to attend a dinner. That error occurred because the Health Science Center overrode its policy of rejecting reimbursement requests for expenses related to the attendance of spouses at official functions.
- An invoice for consumable office supplies included $12 in food items. That error occurred because the purchaser overlooked the fact that that the purchase was made with project funds.

The Health Science Center corrected those errors after auditors brought them to its attention; therefore, there were no questioned costs.

In addition, 1 (1 percent) of the 73 direct cost transactions tested at the Health Science Center was for a cost that was not allocated in accordance with the Health Science Center's practices. Specifically, the Health Science Center allocated federal funds to pay a monthly fee of $31 (for a total of $284) for a phone line that was unrelated to project objectives. That phone line was billed in error on the same project account as an allowable, project-related phone line. The Health Science Center corrected that error after auditors brought it to the Health Science Center's attention; therefore, there were no questioned costs.

The following awards were affected by the issues discussed above.

CFDA No.	CFDA Title	Award Number	Award Year
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	3U48DP001949-05S1	September 30, 2009 to March 29, 2015
93.350	National Center for Advancing Translational Sciences	5KL2TR000370-08	June 27, 2012 to May 31, 2017
93.838	Lung Diseases Research	5P01HL114457-02	June 1, 2013 to May 31, 2018

CFDA No.	CFDA Title	Award Number	Award Year
93.994	Maternal and Child Health Services Block Grant to the States	2014-044533-001	September 1, 2013 to August 31, 2014

Recommendations:

The Health Science Center should:

- Charge only allowable costs to federal awards.
- Strengthen its review process to help ensure that it identifies unallowable costs so that it does not charge those costs to federal awards.
- Accumulate, allocate, and report costs charged to federal awards in accordance with its practices.

Management Response and Corrective Action Plan:

Consistent with the audit recommendation the identified costs have been removed and documentation has been provided to the auditors. Allowable Costs training has been provided to central administration staff and school/departmental personnel to ensure that only appropriate costs ore charged to federal awards.

Implementation Date: *January 28, 2015*

Responsible Person: *Jodi Ogden*

Reference No. 2014-157

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 – Significant Deficiency and Non-Compliance

Questioned Cost: $331,311

U.S. Department of Agriculture
U.S. Department of Defense
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Veteran Affairs

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 pre-award 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).

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).

The University of Texas Health Science Center at Houston (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 14 (23 percent) of 60 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 and did not liquidate the obligation within 90 days after the end of the funding period. The 14 transactions tested were recorded between 92 and 396 days after the end date of the federal awards and resulted in a total of $4,093 in questioned costs. Thirteen of those transactions were charges made from funds in excess of expenditures from expired federal awards.
- For 49 (96 percent) of 51 additional federal grant awards tested that expired prior to fiscal year 2014 but had expenditures recorded in fiscal year 2014, the Health Science Center did not liquidate the obligation within 90 days after the end of the funding period. The transactions associated with the awards tested were recorded between 107 and 6,593 days (18 years) after the end date of the federal awards and resulted in $327,220 in questioned costs.
- For the two transfer transactions tested that were recorded after the end of the award period of availability, the Health Science Center incurred the original expenditures within the award period but did not process the transfers within 90 days after the end of the funding period. While the Health Science Center reviewed and approved the transfers, that was not effective to ensure that the transfers occurred within 90 days after the end of the funding period.

The Health Science Center does not have a process to close out expired federal grants that have residual funds. The Health Science Center maintains the funds under the original project and federal funding codes after the award has ended, and its subsequent expenditures are not always related to the original project objectives. The Health Science Center has controls within its automated system to prevent transactions outside of the period of availability. However, the Health Science Center bypasses the controls in its financial system to allow transactions outside of the period of availability.

Control weaknesses increase the risk of non-compliance with period of availability requirements in applicable laws, regulations, and the provisions of federal grant agreements.

The following awards were affected by the issues described above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	5888NE1	September 1, 1998 to September 30, 1998	$ 77
12.420	Military Medical Research and Development	W81XWH-10-1-1060	September 27, 2010 to December 26, 2012	20
12.420	Military Medical Research and Development	W81XWH-11-1-0304	January 1, 2011 to April 30, 2012	0
64.009	Veterans Medical Care Benefits	V671P-3846	December 1, 2001 to September 30, 2003	15,762
64.018	Sharing Specialized Medical Resources	580-D-35329	January 1, 2002 to December 31, 2004	4
64.018	Sharing Specialized Medical Resources	DVA-671/151	January 12, 2000 to September 31, 2000	58
84.305	Education Research, Development and Dissemination	ED-01-CO-0039 0005	December 1, 2003 to November 30, 2004	1,677

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
84.359	Early Reading First Program	EDO1CO00550006	August 15, 2002 to April 30, 2003	2,210
93.000	Department of Health and Human Services	CRB-SSS-S-12-002254	January 20, 2012 to March 31, 2013	5,156
93.000	Department of Health and Human Services	HHSN261201200210P	June 14, 2012 to December 31, 2012	1,506
93.000	Department of Health and Human Services	MDC-03-03	December 1, 2007 to October 21, 2009	723
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	U52/CCU600497	January 1, 2005 to December 31, 2005	6,075
93.226	Research on Healthcare Costs, Quality and Outcomes	5R01HS013099-02	September 30, 2004 to September 29, 2006	1,383
93.262	Occupational Safety and Health Program	264585	September 30, 2002 to September 30, 2003	22,795
93.278	Drug Abuse National Research Service Awards for Research Training	R01DA1075	February 2, 2002 to December 2, 2003	0
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2011-037904-001	March 15, 2011 to August 31, 2011	2,160
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2012-039523-001	September 1, 2011 to August 31, 2012	75
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	H056-03/03	December 1, 1997 to September 30, 1999	146
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	REG 65-10	July 1, 2010 to June 30, 2011	4,099
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-002	January 14, 2013 to June 29, 2013	118
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-001	January 14, 2013 to June 29, 2013	91
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-000	January 14, 2013 to June 29, 2013	669

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.350	National Center for Advancing Translational Sciences	5UL1TR000371-07	February 1, 2012 to May 31, 2013	0
93.350	National Center for Advancing Translational Sciences	5UL1TR000371-08	January 1, 2012 to May 31, 2013	6,450
93.389	National Center for Research Resources	UL1RR024148	July 1, 2007 to June 30, 2011	24,429
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	4500160060-1	April 1, 2012 to September 30, 2012	7,892
93.837	Cardiovascular Diseases Research	5U01HL087318-04	January 1, 2009 to December 31, 2010	7,309
93.837	Cardiovascular Diseases Research	N02-HL-3-4208	September 1, 2003 to February 28, 2005	4,442
93.837	Cardiovascular Diseases Research	U01HL38844	August 15, 1997 to July 31, 2002	22,215
93.837	Cardiovascular Diseases Research	R01HL095132	June 1, 2009 to June 30, 2013	3
93.837	Cardiovascular Diseases Research	5R01HL088128-05	March 7, 2008 to February 28, 2014	46
93.838	Lung Diseases Research	R01HL089901-03	December 1, 2007 to July 31, 2013	1,821
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	N01-AI-05419	January 1, 2008 to September 21, 2012	51
93.849	Kidney Diseases, Urology and Hematology Research	5U01DK066174-05	August 1, 2004 to July 31, 2008	8,968
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1U01NS045719	August 1, 2004 to November 30, 2012	56,435
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS037666-07	January 17, 2005 to March 31, 2009	29,215
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS032228-12	January 1, 2008 to September 30, 2012	247

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS052220-02	February 1, 2006 to November 30, 2010	8,215
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	P50NS044378-06	July 22, 2008 to April 30, 2013	0
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	R1NS39160	September 30, 2000 to March 31, 2004	9,525
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	U01NS040406	June 1, 2007 to May 31, 2013	33,464
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	U01NS053998	May 1, 2009 to April 30, 2012	0
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1U0NS062778-01	September 1, 2010 to June 30, 2013	1,235
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS056975-02	August 1, 2007 to May 31, 2014	25
93.855	Allergy, Immunology and Transplantation Research	1U01AI067693-02	September 1, 2008 to August 31, 2011	446
93.855	Allergy, Immunology and Transplantation Research	ACTG PROTOCOL A5280/SITE 31473	June 1, 2011 to May 31, 2012	363
93.855	Allergy, Immunology and Transplantation Research	PROTOCOL A5257	February 1, 2009 to November 30, 2011	25
93.855	Allergy, Immunology and Transplantation Research	ACTG A5260S	January 1, 2010 to July 31, 2013	84
93.855	Allergy, Immunology and Transplantation Research	5R21AI088329-02	January 1, 2011 to December 31, 2013	0
93.865	Child Health and Human Development Extramural Research	5R01HD043943-04	February 1, 2004 to January 31, 2008	1,364
93.865	Child Health and Human Development Extramural Research	HHSN267200603425C	June 1, 2007 to September 30, 2008	4,031

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.865	Child Health and Human Development Extramural Research	U01HD050078/SUBAWARD 11-035	February 1, 2009 to January 31, 2013	3,459
93.867	Vision Research	U10EY09867-05	July 1, 2001 to June 30, 2002	128
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	7447447444-2001-17	June 1, 2001 to December 31, 2001	1,863
93.924	Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	RWDENTAIDS/95	August 1, 1995 to August 1, 1997	590
93.940	HIV Prevention Activities - Health Department Based	P015148	March 1, 1995 to February 28, 2001	23
93.940	HIV Prevention Activities - Health Department Based	U62/CCU606238	January 1, 2003 to December 31, 2011	32,144
			Total Questioned Cost	$331,311

Recommendations:

The Health Science Center should:

- Develop and implement an award close-out process that will help ensure that it complies with all period of availability requirements for federal awards with residual funds.
- Strengthen its process to help ensure that adjustments and transfers it makes after the period of availability are within the 90-day period after the expiration of an award.

Management Response and Corrective Action Plan:

Of the costs listed, 89% involve projects whereby funds vest with the University. The other 11% are comprised of two subaccounts for an ongoing project that ends in 2017, two interest earnings which occur in arrears and thus impacted FY14 accordingly, and three projects were subsequently closed out pending receipt of necessary documentation from the departments.

The University concurs with the recommendation to improve its award close out process. The close out process is in development and will comply with all period of availability requirements for federal awards with residual funds. As part of this process, adjustments and transfers will occur with the 90-day period after the expiration of the award.

Implementation Date: *April 1, 2015 with estimated completion date of August 31, 2015*

Responsible Person: *Jodi Ogden*

Reference No. 2014-158

Subrecipient Monitoring
Special Tests and Provisions – R3 – Subrecipient Monitoring

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

Questioned Cost: $ 0

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

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 (CFR), Sections 25.105 and 25.205).

For 2 (5 percent) of 41 non-American Recovery and Reinvestment Act subawards tested that were awarded after October 1, 2010, the University of Texas Health Science Center at Houston (Health Science Center) did not obtain a DUNS number prior to making the subaward. The Health Science Center documents DUNS numbers in an attachment to the subaward. However, the Health Science Center did not consistently use that attachment.

Not obtaining a DUNS number prior to making a subaward could lead to improper reporting of federal funding on the Health Science Center's Federal Funding Accountability and Transparency Act reports.

Award Identification Requirements

At the time of a 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 (U.S. Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d)).

For 3 (7 percent) of 42 subawards tested, the Health Science Center did not always include federal award identification requirements or applicable compliance requirements in subaward agreements. Specifically, the Health Science Center did not always include the CFDA number, ensure that the CFDA number was correct, include the prime award number, or include any special terms and conditions. The Health Science Center created subawards using the Federal Demonstration Partnership template. However, it did not consistently or accurately complete all fields in that template.

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. Inadequate identification of special terms and conditions increases the risk that the Health Science Center would not detect a subrecipient's noncompliance with federal requirements.

Subrecipient Audits

The Health Science Center must ensure a subrecipient that expends $500,000 or more in federal awards during the subrecipient's fiscal year obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Health Science Center within nine months of the end of the subrecipient's audit period (OMB Circular A-133, Sections 320 and 400). In addition, the Health Science Center must issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and follow up to ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Health Science Center must take appropriate action using sanctions (OMB Circular A-133, Section 400).

For 9 (21 percent) of 42 subawards tested, the Health Science Center did not obtain the required subrecipient Single Audit report. The Health Science Center's process was to send confirmation letters to its subrecipients regarding whether they had obtained the required audit and whether there were any material findings. However, the Health Science Center did not consistently send that letter to its subrecipients.

When the Health Science Center does not ensure that required audits are performed, that increases the risk that deficiencies could go unaddressed.

Special Tests and Provisions – R3 – Subrecipient Monitoring

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, 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, CFR, Section 176.210).

For 2 (50 percent) of 4 Recovery Act subawards tested, the Health Science Center did not separately identify to each subrecipient, and document at the time of the subaward, the requirement for their subrecipients to include on their schedules of expenditures of federal awards information to specifically identify Recovery Act funding. The Health Science Center included that information in the subaward agreement using a specific Recovery Act attachment with the requirements. However, it did not consistently include that attachment with its Recovery Act subaward agreements.

Not informing subrecipients of the requirement to include on their schedules of expenditures of federal awards information to specifically identify Recovery Act funding could lead to improper reporting in the schedule of expenditures of federal awards.

In addition, for 2 (50 percent) of 4 Recovery Act subawards tested, the Health Science Center did not identify Recovery Act information when it disbursed Recovery Act funds to those subrecipients. The Health Science Center's process was to include that information in a letter that it provided to the subrecipient at the time of disbursement. However, the Health Science Center did not consistently send that letter at the time of disbursement.

Inadequate identification of Recovery Act information at the time of disbursement could result in subrecipients incorrectly reporting Recovery Act funds in their schedules of expenditures of federal awards.

The following awards were affected by the issues discussed above.

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-13-1-0489	September 30, 2013 to September 29, 2016
93.279	Drug Abuse and Addiction Research Programs	1R01DA035157-02	September 1, 2012 to July 31, 2013
93.307	Minority Health and Health Disparities Research	5U24MD006941-04	September 20, 2011 to June 30, 2012
93.324	State Health Insurance Assistance Program	R324A120363	September 1, 2012 to August 31, 2013
93.701	Trans-NIH Recovery Act Research	U01NS062835	September 30, 2009 to August 31, 2010
93.728	ARRA - Strategic Health IT Advanced Research Projects	90TR0004-01	April 10, 2010 to March 31, 2014
93.837	Cardiovascular Diseases Research	5UM1HL087318-08	March 15, 2012 to February 28, 2013
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS078745-03	June 1, 2013 to May 31, 2014
93.859	Biomedical Research and Research Training	5R01GM104411-02	April 1, 2013 to January 31, 2014

CFDA No.	CFDA Title	Award Number	Award Year
93.865	Child Health and Human Development Extramural Research	5R01HD067694-04	April 1, 2011 to March 31, 2012

Recommendations:

The Health Science Center should:

- Strengthen its processes to ensure that it consistently obtains a DUNS number prior to making a subaward.
- Provide all award requirements, including any special terms and conditions of the prime award, at the time of each subaward.
- Strengthen its controls to ensure that it obtains required audits from subrecipients.
- Strengthen its process to ensure that it identifies at the time of the subaward and at the time of disbursement all required Recovery Act information.

Management Response and Corrective Action Plan:

Based upon preliminary audit results, Sponsored Project Administration has analyzed its clerical processes, identified its deficiency, and subsequently enhanced its training and implemented a more thorough review process to prevent the errors identified from reoccurring.

Implementation Date: *January 15, 2015*

Responsible Person: *Jodi Ogden*

University of Texas M.D. Anderson Cancer Center

Reference No. 2014-159
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
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 –Significant Deficiency and Non-Compliance

Questioned Cost: $8,393

U.S. Department of Health and Human Services

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, Code of Federal Regulations, Section 220, Appendix A (J)(10)).

Every year since 1990, the U.S. Congress has legislatively mandated a provision limiting the direct salary that an individual may receive under a National Institutes of Health (NIH) grant. The amount of direct salary to Executive Level II of the federal executive pay scale was restricted to $179,700 from December 23, 2011, through January 11, 2014. The Executive Level II salary restriction increased from $179,700 to $181,500 effective January 12, 2014 (NIH Notice Number NOT-OD-14-052).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not always limit the direct salary that employees received under NIH grants. The Cancer Center's effort certification system is designed to identify employees whose salaries exceed the NIH limit. However, when the limit increased in January 2014, the Cancer Center incorrectly established the limit as $185,800 in its effort certification system. As a result of that error, the Cancer Center overcharged NIH awards $2,144 for salary expenses for 6 employees.

The following awards were affected by the issue discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.000	Department of Health and Human Services	N01 CM-2011-00039 01	June 12, 2013 to March 31, 2014	$ 4
93.279	Drug Abuse and Addiction Research Programs	5 R25 DA026120 05	August 1, 2010 to March 31, 2015	150
93.393	Cancer Cause and Prevention Research	1 R01 CA169122 01	September 17, 2013 to May 31, 2014	161
93.393	Cancer Cause and Prevention Research	5 R01 CA154823 03	April 1, 2011 to March 31, 2013	147

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.395	Cancer Treatment Research	5 R21 CA153017 02	March 2, 2011 to February 28, 2013	24
93.397	Cancer Centers Support Grants	5 U54 CA153505 04	September 1, 2010 to August 31, 2015	110
93.397	Cancer Centers Support Grants	5 P30 CA016672 39	July 1 2013, to June 30, 2018	272
93.398	Cancer Research Manpower	2 R25 CA056452 21 A1	July 3, 2013 to June 30, 2018	445
93.398	Cancer Research Manpower	2 R25 CA057730 22	July 23, 2012 to July 22, 2013	441
93.398	Cancer Research Manpower	5 K08 CA151651 05	September 1, 2010 to August 31, 2015	291
93.398	Cancer Research Manpower	5 K12 CA088084 14	September 13, 2000 to August 31, 2015	99
			Total Questioned Cost	$2,144

The Cancer Center also did not always adjust salaries charged to federal awards as a result of after-the-fact confirmation of effort. One employee whose salary exceeded the NIH salary limit had payroll expenses that exceeded the certified effort percentage. That resulted in an overcharge of $6,249 associated with the following award:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.398	Cancer Research Manpower	5 K12 CA088084 14	September 13, 2010 to August 31, 2015	$6,249

Other Compliance Requirements

Although the general control weaknesses described below apply to cash management and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

General Controls

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

The Cancer Center did not consistently maintain high-profile user accounts at the server level. Specifically, nine individuals had inappropriate access to the PeopleSoft Financials and Human Resources systems' servers. After auditors brought that issue to its attention, the Cancer Center removed the inappropriate access for those nine individuals. The Cancer Center asserted that it had a periodic user access review process to identify and remove inappropriate system access and to help ensure that segregation of duties issues do not exist for users who have access to multiple system profiles or transactions. However, that process was not documented, and it was not sufficient to prevent the errors discussed above.

Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Cancer Center should

- Establish correct NIH salary limits in its effort certification system.
- Adjust payroll charges to federal awards based on certified effort.
- Ensure that access to its information systems is limited and appropriate based on job responsibilities.
- Document its periodic reviews of access accounts and the results of those reviews.

Management Response and Corrective Action Plan:

The Cancer Center developed and implemented a process to establish the correct NIH salary limits in our effort certification system, and to adjust payroll charges to certified effort.

Implementation Date: *February 2015*

Responsible Person: *Claudia Delgado*

The Cancer Center's PeopleSoft security team implemented a monthly recertification process of access provisioned in the Financials, Supply Chain and Grants modules.

Implementation Date: *November 2014*

Responsible Persons: *Richard Tademy Jr. and Sharon Robertson*

Reference No. 2014-160

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

Questioned Cost: $ 0

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

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must 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. In addition, a physical inventory of equipment must be taken, and the results must be 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 must be investigated to determine the causes of the difference. The recipient must, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. A control system also must be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment must be investigated and fully documented; if the equipment was owned by the federal government, the recipient must promptly notify the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas M.D. Anderson Cancer Center's (Cancer Center) *Asset Control Manual* requires that all capital and controlled assets be tagged upon receipt or prior to being placed in service with a standard, prenumbered Cancer Center property identification tag. Tags must be placed in a highly visible location on each asset where the

tags are easily accessible during the annual inventory, and unauthorized removal of the property identification tags is strictly prohibited.

The Cancer Center did not always maintain adequate property records for its equipment or adequately safeguard its equipment. Specifically, the Cancer Center was unable to locate 1 (2 percent) of 63 equipment items tested. That item was computer software. The Cancer Center inventoried that item in fiscal year 2014 and transferred it to another department; however, it could not locate that item during audit testing. As of the date of audit testing, the Cancer Center had not completed a missing property form for that item. The federal award through which the Cancer Center purchased that item was complete, and the Cancer Center had ownership of that item; therefore, there were no questioned costs.

For 7 (78 percent) of 9 fiscal year 2014 equipment purchases tested, the Cancer Center did not update its inventory management system with each item's information. During fiscal year 2014, the Cancer Center's process for updating its inventory management system depended on the assignment of a property identification tag to each item. Those seven errors occurred because the Cancer Center did not assign property identification tags in a timely manner, which caused a significant delay in updating its inventory management system.

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

The following awards were affected by the issues noted above:

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-04-1-0142	December 15, 2003 to July 14, 2011
93.837	Cardiovascular Diseases Research	5 R01 HL077400 10	July 1, 2004 to June 30, 2015
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01NS078152-03	August 1, 2012 to May 31, 2017
93.887	Health Care and Other Facilities	1 C76 HF015481 01	September 1, 2009 to September 30, 2014
93.394	Cancer Detection and Diagnosis Research	5 U24 CA144025 03	September 29, 2009 to July 31, 2014
93.395	Cancer Treatment Research	5 U10 CA010953 45	March 18, 2011 to December 31, 2013
93.398	Cancer Research Manpower	5 K12 CA088084 14	September 13, 2000 to August 31, 2015
93.396	Cancer Biology Research	5 R01 CA138345 05	July 1, 2009 to April 30, 2014

General Controls

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

The Cancer Center did not consistently maintain high-profile user accounts at the server level. Specifically, nine individuals had inappropriate access to the PeopleSoft Financials and Human Resources systems' servers. After auditors brought that issue to its attention, the Cancer Center removed the inappropriate access for those nine individuals. The Cancer Center asserted that it had a periodic user access review process to identify and remove inappropriate system access and to help ensure that segregation of duties issues do not exist for users who have

access to multiple system profiles or transactions. However, that process was not documented, and it was not sufficient to prevent the errors discussed above.

Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Cancer Center should:

- Strengthen controls to ensure that it maintains complete and accurate property records for equipment.
- Strengthen controls to ensure that it adequately safeguards its equipment to prevent loss, damage, or theft of equipment.
- Ensure that access to its information systems is limited and appropriate based on job responsibilities.
- Document its periodic reviews of access accounts and the results of those reviews.

Management Response and Corrective Action Plan:

We agree the seven assets selected were not in the asset registry. There were several contributing factors which will be addressed by the end of the fiscal year. The corrective action plan will include 1) re-education of buyers regarding the use of the "Do Not Receive" flag for asset purchases; 2) closer monitoring of PeopleSoft operational ticket requests to fix issues impacting the creation of assets; 3) removal of the PeopleSoft customization that requires certain data to be entered at the receipt level which if not entered, keeps receipts open not allowing the asset information to pass to the Asset Management (AM) subsystem's interface for asset creation; 4) review all asset related open receipts and fix any issues; and 5) utilize a process made available to the AM subsystem in January 2015 to quickly and accurately load assets into the registry.

Implementation Date: *August 2015*

Responsible Person: *Bob Mahaney*

The missing equipment item was accounted for during the Cancer Center's last annual inventory, July 2014. While the asset was not located during the audit testing, in accordance with our procedures the department, which owns the asset, has until July 2015 to complete the annual inventory and submit the appropriate documentation required to complete this process, including a missing property report for items not located during the inventory cycle.

Implementation Date: *February 2015*

Responsible Person: *Rick Dillard*

The Cancer Center's PeopleSoft security team implemented a monthly recertification process of access provisioned in the Financials, Supply Chain and Grants modules.

Implementation Date: *November 2014*

Responsible Persons: *Richard Tademy Jr. and Sharon Robertson*

Reference No. 2014-161

Reporting

(Prior Audit Issues 2013-185 and 13-171)

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

Financial Reporting

Questioned Cost: $ 0

U.S. Department of Health and Human Services

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 Standard Form (SF) 425, the Federal Cash Transactions Report SF-272, or other reporting forms as required by the applicable Federal awarding agency to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425 and SF-272, including definitions and requirements of key reporting elements.

The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not ensure that its financial reports were supported by applicable accounting records and were fairly presented in accordance with program requirements. Specifically, the Cancer Center did not prepare 3 (5 percent) of 60 financial reports tested in accordance with the applicable accounting method. For all three reports, the Cancer Center indicated on the SF-425 that it used the cash accounting basis; however, the Cancer Center included unobligated balances in the "Federal share of expenditures," which is not in accordance with the cash accounting basis as defined in the SF-425 reporting instructions. In addition, the amounts the Cancer Center included on one of those three reports were not supported by its accounting records.

While the Cancer Center reviewed those financial reports prior to submission, that review was not sufficient to ensure that the reports (1) were completed in accordance with the applicable accounting method or (2) were fully supported. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor their awards.

Federal Funding and 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, CFR, Chapter 170).

The Cancer Center did not ensure that it consistently submitted Transparency Act reports within the required time frames or with the correct subaward obligation date. For 2 (40 percent) of 5 reports tested, the Cancer Center submitted the reports 28 and 234 days late. The Cancer Center implemented new Transparency Act reporting procedures during fiscal year 2014; those procedures included reporting all past awards that had not been submitted and a review and approval of submitted reports. The number of reports submitted in fiscal year 2014 and the coordination needed between multiple departments caused a delay in submitting some of the required reports.

In addition, the Cancer Center incorrectly reported the subaward obligation date for 1 (20 percent) of 5 reports tested. The Cancer Center detected that error during its review of the report; however, it did not update the information in the reporting system.

Not submitting required Transparency Act reports in a timely manner and with correct information decreases the reliability and availability of information provided to the awarding agency and other users of that information.

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

CFDA No.	CFDA Title	Award Number	Award Year
93.397	Cancer Centers Support Grants	5 P50 CA093459 09	July 27, 2012 to July 26, 2013
93.397	Cancer Centers Support Grants	5 P50 CA091846 11	September 19, 2012 to August 31, 2017
93.399	Cancer Control	5 P50 CA083639 14	September 30, 1999 to August 31, 2015

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

CFDA No.	CFDA Title	Award Number	Award Year
93.855	Allergy, Immunology and Transplantation Research	5 R01 AI093533 04	March 1, 2011 to February 29, 2016
93.394	Cancer Detection and Diagnosis Research	5 R01 CA157450 04	March 14, 2011 to February 29, 2016
93.395	Cancer Treatment Research	5 R21 CA177049 02	April 3, 2013 to March 31, 2015

General Controls

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

The Cancer Center did not consistently maintain high-profile user accounts at the server level. Specifically, nine individuals had inappropriate access to the PeopleSoft Financials and Human Resources systems' servers. After auditors brought that issue to its attention, the Cancer Center removed the inappropriate access for those nine individuals. The Cancer Center asserted that it had a periodic user access review process to identify and remove inappropriate system access and to help ensure that segregation of duties issues do not exist for users who have access to multiple system profiles or transactions. However, that process was not documented, and it was not sufficient to prevent the errors discussed above.

Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Cancer Center should:

- Strengthen controls to ensure that the federal financial reports that it submits are complete and accurate.
- Submit accurate and complete Transparency Act reports within required time frames.
- Ensure that access to its information systems is limited and appropriate based on job responsibilities.
- Document its periodic reviews of access accounts and the results of those reviews.

Management Response and Corrective Action Plan:

The Cancer Center will continue to strengthen its controls to ensure that the federal financial reports and Transparency Act reports are complete, accurate and timely.

Implementation Date: *February 2015*

Responsible Person: *Claudia Delgado*

The Cancer Center's PeopleSoft security team implemented a monthly recertification process of access provisioned in the Financials, Supply Chain and Grants modules.

Implementation Date: November 2014

Responsible Persons: Richard Tademy Jr. and Sharon Robertson

Reference No. 2014-162
Subrecipient Monitoring
Special Tests and Provisions – R3 – Subrecipient Monitoring
(Prior Audit Issues 2013-186 and 13-172)

Research and Development Cluster
Research and Development Cluster – ARRA
Award years – May 1, 2010 to February 28, 2015; January 1, 2011 to December 31, 2012; September 1, 2011 to August 31, 2013; July 1, 2012 to June 30, 2015; September 1, 2009 to September 30, 2014; and September 1, 2010 to August 31, 2013
Award numbers – CFDA 93.393, Cancer Cause and Prevention Research, 5 R01 CA149462 04; CFDA 93.855, Allergy, Immunology and Transplantation Research, 5 R03 AI092252 02; CFDA 93.395, Cancer Treatment Research, 5 R21 CA159270 01; CFDA 12.420, Military Medical Research and Development, W81XWH-12-1-0202 02; CFDA 93.887, Health Care and Other Facilities, 1 C76 HF015481 01; and CFDA 93.715, Recovery Act – Comparative Effectiveness Research - AHRQ, 1 R18 HS019354 01 A
Type of finding – Significant Deficiency and Non-Compliance

Preaward Requirements

Questioned Cost: $ 0

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

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 (CFR), Sections 25.105 and 25.205).

For 4 (21 percent) of 19 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. In May 2014, the Cancer Center implemented a new preaward process to ensure that it obtains DUNS numbers for subrecipients prior to executing subawards. The four subawards for which the Cancer Center did not obtain DUNS numbers were awarded prior to the implementation of that new preaward process.

Not obtaining a DUNS number prior to making a subaward 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 3 (11 percent) of 28 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, those invoices did not contain sufficient

detail for the Cancer Center to determine whether the expenditures were for allowable activities and costs or whether the expenditures complied with other federal and award requirements. For example, one subrecipient invoice included an $8,266 line item labeled "Supplies/Services"; however, the subaward budget included costs only for equipment, and there was no further information on the invoice regarding the type of expenses it covered. The Cancer Center implemented a new process in May 2014 to strengthen its review of subrecipient invoices; however, it reviewed and approved the activities of a subrecipient associated with one of the errors discussed above in July 2014, after it had implemented that new process.

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

Special Tests and Provisions – R3 – Subrecipient Monitoring

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, CFR, Section 176.210).

The Cancer Center did not send the required notifications at the time of disbursement of funds to its only subrecipient of Recovery Act funds to which it made disbursements during fiscal year 2014. The Cancer Center disbursed funds to that subrecipient in September and November 2013, but it did not send the notification for both disbursements until January 2014.

Inadequate identification of Recovery Act information at the time of disbursement could lead to improper reporting of Recovery Act funds in subrecipients' schedules of expenditures of federal awards.

General Controls

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

The Cancer Center did not consistently maintain high-profile user accounts at the server level. Specifically, nine individuals had inappropriate access to the PeopleSoft Financials and Human Resources systems' servers. After auditors brought that issue to its attention, the Cancer Center removed the inappropriate access for those nine individuals. The Cancer Center asserted that it had a periodic user access review process to identify and remove inappropriate system access and to help ensure that segregation of duties issues do not exist for users who have access to multiple system profiles or transactions. However, that process was not documented, and it was not sufficient to prevent the errors discussed above.

Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Cancer Center should:

- Strengthen its procedures to ensure that it consistently obtains a DUNS number prior to making a subaward.
- Consistently monitor subrecipients' activities during subaward periods to ensure that subrecipients' expenditures are allowable and comply with award requirements.
- Provide all required information to its subrecipients of Recovery Act funds at the time of each disbursement.
- Ensure that access to its information systems is limited and appropriate based on job responsibilities.
- Document its periodic reviews of access accounts and the results of those reviews.

Management Response and Corrective Action Plan:

The Cancer Center will continue to strengthen its procedures implemented in May 2014 to ensure that a DUNS number is obtained prior to issuing an award to a subrecipient. The four subawards for which the DUNS number was not obtained were awarded prior to the implementation of the new procedures.

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. A new procedure was implemented in May 2014.

The Cancer Center will provide all the required information to its subrecipients of Recovery Act funds at the time of each disbursement.

Implementation Date: *February 2015*

Responsible Person: *Claudia Delgado*

The Cancer Center's PeopleSoft security team implemented a monthly recertification process of access provisioned in the Financials, Supply Chain and Grants modules.

Implementation Date: *November 2014*

Responsible Persons: *Richard Tademy Jr. and Sharon Robertson*

University of Texas Medical Branch at Galveston

Reference No. 2014-163
Equipment and Real Property Management
(Prior Audit Issue 13-175)

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

Equipment

Questioned Cost: $ 0

U.S, Department of Health and Human Services

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. In addition, 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 Medical Branch at Galveston's (Medical Branch) *Asset Management Handbook* also 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 between $500 and $5,000).

The Medical Branch did not always maintain adequate property records for its equipment. For 4 (6 percent) of 64 equipment items tested, the Medical Branch's property records did not accurately reflect the serial number or asset tag number. Those errors occurred because of weaknesses in the Medical Branch's record keeping processes and because the Medical Branch did not update asset information during the annual inventory process. Not properly maintaining property records and not tagging equipment increases the risk that assets may be lost or stolen.

Equipment Disposition

The Medical Branch's *Asset Management Handbook* requires that an asset disposition form be completed when the Medical Branch disposes of an asset. The asset manager and a representative of the Office of Sponsored Programs are required to review and approve that form when an asset was acquired with federal funds.

For 4 (36 percent) of 11 equipment disposals tested, the Medical Branch did not obtain the required approvals from a representative of the Office of Sponsored Programs. The Medical Branch did not route the asset disposition forms to obtain the approval of the Office of Sponsored Programs prior to auctioning the items. Not obtaining the proper approvals increases the risk that assets acquired with federal funds could be disposed of improperly.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
93.000	Department of Health and Human Services	N01-AI-40097/HHSN266	September 30, 2004 to September 30, 2010

CFDA No.	CFDA Title	Award Number	Award Year
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	R01DK3481718	April 1, 1999 to May 31, 2004
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 P01 NS011255-31	August 1, 2001 to March, 31, 2008
93.855	Allergy, Immunology and Transplantation Research	5UC7AI09466004	May 31, 2011 to April 30, 2016

Recommendations:

The Medical Branch should:

- Strengthen controls to help ensure that it maintains accurate and complete property records.
- Strengthen controls to help ensure that it obtains proper approvals prior to final disposition of assets.

Management Response and Corrective Action Plan:

***Equipment**:*

Management agrees with the auditor's recommendation. Asset Management will reiterate to our Asset Custodians the importance of relaying to us any changes or updates to their inventoried assets in a timely manner.

***Equipment Disposition**:*

Management agrees with the auditor's recommendation and has identified the following steps as necessary to mitigate this risk and ensure proper approval of federally funded equipment occurs prior to it being sent to Surplus:

- Asset Management will be working with logistics to ensure the data feed detailing what assets are purchased with federal funds is prepared and loaded into eSurplus in the appropriate manner to ensure asset funding source is correctly identified.

- Asset Management will request that Logistics add additional fields to the data export from eSurplus to ensure that OSP approval has occurred for applicable items. This will include: the fund code related to the asset, the field identifying whether the item has been marked as needing OSP approval, and the field noting that OSP has approved this item. This will allow Asset Management to identify at the beginning of the process any potential issues and ensure proper approvals occur.

- Asset Management will be doing a quarterly review of all disposed assets purchased with federal funds to ensure appropriate approvals have occurred.

Implementation Date: February 2015

Responsible Persons: Robert Benbrook and Craig Elmore

Reference No. 2014-164

Reporting

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

Questioned Cost: $ 0

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

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).

The University of Texas Medical Branch at Galveston (Medical Branch) did not submit reports within required time frames. Specifically, for 6 (67 percent) of 9 Transparency Act reports tested, the Medical Branch did not submit the reports for its subawards or subaward modifications within the required time frame. It submitted three of those reports between three days and four months after the required date. The remaining three reports were subaward modifications that the Medical Branch did not report. Because the Medical Branch did not report those modifications, the key data elements it previously reported for those subawards were not accurate in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

The Medical Branch has a process for Transparency Act reporting that includes identifying subawards and reviewing and approving reports prior to submission, but that process was not working effectively. In addition, the Medical Branch does not have a process for identifying when it should report subaward modifications.

Not submitting required Transparency Act reports in a timely manner and with accurate information decreases the reliability and availability of information provided to the awarding agency and other users of that information.

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

CFDA No.	CFDA Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00014-12-C-0556	August 27, 2012 to February 27, 2015
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA1-11-1-0032	June 15, 2013 to June 14, 2014
93.226	Research on Healthcare Costs, Quality and Outcomes	5R24HS022134-02	May 1, 2013 to April 30, 2018
93.855	Allergy, Immunology and Transplantation Research	5R01AI093445-04	April 4, 2011 to March 31, 2016
93.855	Allergy, Immunology and Transplantation Research	5R21AI102267-02	July 1, 2012 to June 30, 2014
93.866	Aging Research	5R01AG018016-08	September 30, 1999 to March 31, 2016

Recommendation:

The Medical Branch should strengthen controls to help ensure that it accurately reports subawards and subaward modifications that are subject to Transparency Act reporting requirements in a timely manner.

Management Response and Corrective Action Plan:

Management agrees with the auditor's recommendation and has taken the necessary steps to establish and implement procedures to ensure that all required reports are filed timely.

Implementation Date: *January 2015*

Responsible Person: *Glenita Segura*

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 2013 Schedule of Findings and Questioned Costs.
- Each finding in the 2013 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, 2014) has been prepared to address these responsibilities.

Texas A&M AgriLife Research

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

Initial Year Written: 2011
Status: Partially Implemented

Federal agencies that award R&D funds

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

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

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

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

do not identify charges outside of the funding period, federal funds could be improperly spent, which could affect AgriLife's ability to obtain future grant funding.

Recommendation:

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

Management Response and Corrective Action Plan 2011:

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

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

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.

Management Response and Corrective Action Plan 2014:

The closeout process has been modified to automate the notification process, reduce the number of steps in the review process from twelve to six and track the number of projects that ended over 90 days ago by responsible individual. Additionally, the closeout group has been given more responsibility for the non-financial closing aspects of the project, and has been given the systematic access to address those issues in an effort to streamline the process even further. SRS has also implemented a new closeout procedure that clearly outlines the timeframe and requirements for closing a project within 90 days of the end date. In addition to the changes implemented, a task force of four temporary accountants has been hired solely to focus on reducing the backlog of closeouts.

Implementation Date: May 2014

Responsible Persons: Michele Lacey

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).

Initial Year Written: 2013
Status: Partially Implemented

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.

Corrective Action:

Corrective action was taken.

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:

- 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 2013:

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.

Management Response and Corrective Action Plan 2014:

General Controls

In FY 2014, The Texas A&M University System added additional access controls to the source control and build system used by the Time and Effort application. Additionally, the Texas A&M University System also implemented a new change management process to include retention and management of documentation related to testing and authorization of changes in its production environment. Testing plans and results along with final authorization are electronically captured and attached to each change item. The FY 2014 audit at Texas A&M Corpus Christi revealed that this documentation was not always captured in advance of the changes. The Texas A&M University System has revised its process documentation to require documentation and authorization of changes to be recorded prior to changes impacting production.

Additionally, Implementation of the new service desk software has begun. Implementation of the complete change management module will begin this calendar year.

Implementation Date: *March 2015*

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

Initial Year Written: 2013
Status: Partially Implemented

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

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.

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.

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.

Management Response and Corrective Action Plan 2013:

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.*

Management Response and Corrective Action Plan 2014:

Texas A&M Engineering Experiment Station and Texas A&M System Sponsored Research Services acknowledge and agree with the finding. An error on a financial report occurred when a required manual calculation was not accurately performed, resulting in an incorrect amount reported for the IDC base. Additional training has been provided to the secondary reviewer of the reports to ensure that calculation oversights are corrected before submission.

Implementation Date: *January 2015*

Responsible Person: *Diane Hassel*

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.

Corrective Action:

Corrective Action was taken.

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

Initial Year Written: 2013
Status: Implemented

National Science Foundation
U.S. Department of Energy

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

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2013
Status: Partially Implemented

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

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).

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.

Corrective Action:

Corrective action was taken.

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.

Recommendation:

The Health Science Center should monitor its departments to ensure they certify time and effort reports in accordance with its policy.

Management Response and Corrective Action Plan 2013:

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.

Management Response and Corrective Action Plan 2014:

The Health Science Center has trained department administrators and faculty regarding the importance of certifying time & effort documents in a timely manner. The HSC has met with college/component leadership to reiterate the importance of timely certification of time & effort documents. The HSC is running reports available through the time & effort system to notify department administrators of documents needing attention.

Implementation Date: *January 2015*

Responsible Persons: *Julie Bishop*

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).

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.

Corrective Action:

Corrective action has been taken.

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:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
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	7RO1DE019471-04	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
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

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.837	Cardiovascular Diseases Research	7R01HL090817-04	August 1, 2012 to July 31, 2014	10
93.837	Cardiovascular Diseases Research	7RO1HL068838-07	December 1, 2011 to November 30, 2013	6
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	7RO1AR044415-13	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
93.866	Aging Research	7R01AG042189-02	September 1, 2012 to May 31, 2014	6
93.867	Vision Research	7RO1EY01842005	January 1, 2012 to December 31, 2013	55
			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:

CFDA No.	CFDA Title	Award Number	Award Year
93.855	Allergy, Immunology and Transplantation Research	7R01AI098984-02	March 1, 2013 to June 30, 2014

CFDA No.	CFDA Title	Award Number	Award Year
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:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
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	59
			Total	$64

Recommendations:

The Health Science Center should:

- 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 2013:

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.

Management Response and Corrective Action Plan 2014:

In FY 2014, The Texas A&M University System added additional access controls to the source control and build system used by the Time and Effort application. Additionally, the Texas A&M University System also implemented a new change management process to include retention and management of documentation related to testing and authorization of changes in its production environment. Testing plans and results along with final authorization are electronically captured and attached to each change item. The FY 2014 audit at Texas A&M Corpus Christi revealed that this documentation was not always captured in advance of the changes. The Texas A&M University System has revised its process documentation to require documentation and authorization of changes to be recorded prior to changes impacting production.

Additionally, Implementation of the new service desk software has begun. Implementation of the complete change management module will begin this calendar year.

Implementation Date: *March 2015*

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

Initial Year Written: 2013
Status: Partially Implemented

U.S. Department of Health and Human Services

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.

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:

CFDA No.	CFDA Title	Award Number	Award Year
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01NS05478006	July 1, 2011 to December 31, 2012
93.837	Cardiovascular Diseases Research	7RO1HL068838-07	December 1, 2011 to November 30, 2013
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	7R01AR044415-13	December 1, 2011 to November 30, 2013
93.855	Allergy, Immunology and Transplantation Research	7R03AI09215302	December 1, 2011 to November 30, 2013
93.121	Oral Diseases and Disorders Research	7RO1DE019471-04	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	7RO1EY01842005	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

CFDA No.	CFDA Title	Award Number	Award Year
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	7RO1AG04136002	April 15, 2012 to March 31, 2014
93.855	Allergy, Immunology and Transplantation Research	7R01AI042345	April 1, 2012 to March 31, 2014
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

CFDA No.	CFDA Title	Award Number	Award Year
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
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

CFDA No.	CFDA Title	Award Number	Award Year
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:

CFDA No.	CFDA Title	Award Number	Award Year
93.701	Trans-NIH Recovery Act Research Support	7RC2ES018789-03	September 1, 2011 to August 31, 2012
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 2013:

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.

Management Response and Corrective Action Plan 2014:

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. The drawdown review and approval process was strengthened and all drawdowns were reviewed and approved.

Implementation Date: *January 2015*

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

Initial Year Written: 2013
Status: Partialy Implemented

U.S. Department of Health and Human Servicies

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).

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 2013:

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.

Management Response and Corrective Action Plan 2014:

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. The Health Science Center and Texas A&M System Sponsored Research Services will continue to train staff and principal investigators regarding the closeout of federal projects within 90 days of the project termination date.

Implementation Date: January 2015

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

Initial Year Written: 2013
Status: Implemented

National Institutes of Health

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.

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2013
Status: No longer valid

U.S. Department of Health and Human Services

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of 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).

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.

Corrective Action:

Texas A&M Health Science Center has fully expended all subawards made under Recovery Act Funding; therefore, this finding is no longer valid.

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

Initial Year Written: 2012
Status: Implemented

U.S. Department of Education
National Science Foundation

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).

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2012
Status: Implemented

National Science Foundation
U.S. Department of Defense

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).

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2011
Status: Partially Implemented

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

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.

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.

The issues above affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
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 Cyberinfrastucture	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

Corrective Action:

This finding was reissued as current year reference number 2014-155.

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

Initial Year Written: 2013
Status: No longer valid

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

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).

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.

Corrective Action:

Auditors are not required to report audit findings based solely on the tests for suspended and debarred "Principals" pursuant to Part 3 I, "Procurement and Suspension and Debarment," steps 6 and 7, of the March 2013 Supplement; therefore, this finding is no longer valid.

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

Initial Year Written: 2013
Status: Partially Implemented

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

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)).

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.

Corrective Action:

Corrective action was taken.

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.

Corrective Action:

Corrective action was taken.

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:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
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

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
12.800	Air Force Defense Research Sciences Program	FA9550-12-1-0457	September 30, 2012 to November 29, 2015	443
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

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.307	Minority Health and Health Disparities Research	5P20MD002287-05	July 1, 2011 to June 30, 2014	1,200
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	1,321
			Total	$30,669

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

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

Recommendations:

The University should document its periodic user access reviews and related corrective actions, including the removal of unused user accounts.

Management Response and Corrective Action Plan 2013:

- *Processes for periodic review and update of ECRT access and roles will be documented and include removal of unused user accesses.*

Management Response and Corrective Action Plan 2014:

ECRT access roles were reviewed and all unnecessary individuals were removed from the various environments (test/stage/production). As of November 2013, access is now restricted to appropriate staff, and are reviewed and updated (if needed) on a quarterly basis. This process of review and update is also part of ORSP's quarterly compliance reporting. Copies of quarterly review access schedule are on file.

Implementation Date: *Completed*

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

Initial Year Written: 2013
Status: Partially Implemented

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

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) 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 2013:

- *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.*

Management Response and Corrective Action Plan 2014:

The University's General Accounting Office will create a separate account to manage the interest generated from all federal fund advances subject to interest bearing terms and will develop processes to be compliant. Process was developed and is currently being followed. Process – Research administrators and C&G Accountants identify and communicate interest bearing federal prepaid awards to General Accounting. Such identified projects/accounts will be tracked and log for special handling. Accrued interest is kept in the separate account and then disbursed to the principle account. Account owners are advised on a quarterly basis how much interest income is available to be spent toward objectives of the principle account. On an annual basis, earned interest income is reviewed and balances in excess of $250 will be sent to DHHS.

Implementation Date: *Completed*

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).

Initial Year Written: 2013
Status: Implemented

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2013
Status: Partially Implemented

U.S. Department of Labor
U.S. Department of Defense
National Science Foundation
Agency for International Development

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.

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 is 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.

Corrective Action:

Corrective action was taken.

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 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 2013:

- *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.*

Management Response and Corrective Action Plan 2014:

The office of Sponsored Projects went into the FSRS.gov, identified and fixed the typos in the FFATA section of FSRS.gov. ORSP AVP held training session on how to review agency award notifications for FFATA reporting. Further, we added specifically trained support staff for the subcontracting enterprise (pre-award and post-award) to manage subcontracts regarding tracking of subcontracts, post award monitoring, and compliance with FFATA reporting in a timely manner.

Implementation Date: *July 2015*

Responsible Person: *Manuela D. Dokie*

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: 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:

CFDA	CFDA Title	Award Number	Award Year
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

CFDA	CFDA Title	Award Number	Award Year
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

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

Initial Year Written: 2012
Status: Implemented

Federal Agencies that Provide R&D Awards

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal 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)).

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.

Corrective Action:

Corrective action was taken.

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).

Initial Year Written: 2013
Status: Implemented

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:

CFDA No.	CFDA Title	Award Number	Award Year
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

CFDA No.	CFDA Title	Award Number	Award Year
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

CFDA No.	CFDA Title	Award Number	Award Year
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

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2013
Status: Implemented

U.S. Department of Defense
National Institutes of Health

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.

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:

CFDA No.	CFDA Title	Award Number	Award Year
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

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2012
Status: Implemented

National Institutes of Health

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)).

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.

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2012
Status: Partially Implemented

National Aeronautics and Space Administration
National Institutes of Health

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).

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:

CFDA No.	CFDA Title	Award Number	Award Year
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:

CFDA No.	CFDA Title	Award Number	Award Year
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
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:

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

Corrective Action:

This finding was reissued as current year reference number 2014-161.

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

Initial Year Written: 2012
Status: Partially Implemented

National Institutes of Health

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).

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.

Corrective Action:

This finding was reissued as current year reference number 2014-162.

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

Initial Year Written: 2012
Status: Implemented

U.S. Department of Health and Human Services

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).

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.

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.

Corrective Action:

Corrective action was taken.

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.

Corrective Action:

This finding was reissued as current year reference number 2014-163.

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

Initial Year Written: 2013
Status: Implemented

U.S. Department of Health and Human Services

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations (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)).

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.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
93.000	Not Applicable	N01MH090003	September 29, 1999 to March 31, 2011
93.000	Not Applicable	BRCSC04086	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

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2013
Status: Partially Implemented

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

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).

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.

Corrective Action:

Corrective action was taken.

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:

CFDA No.	CFDA Title	Award Number	Award Year
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 Research	5R34DK094115-02	September 30, 2011 to August 31, 2013
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	Aging Research	5R01AG017479-11	July 1, 2012 to June 30, 2014

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

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

Recommendations:

The Medical Center should 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 2013:

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.

Management Response and Corrective Action 2014:

UT Southwestern has fulfilled, completed and implemented the prior management response/corrective action plan. UT Southwestern has put effort toward financial reporting operations-including reviewing process initiatives; UT Southwestern has reviewed/strengthened the financial database; and UT Southwestern continuously reviews processes for possible improvement.

In addressing the effectiveness of the fully implemented corrective action plan for the reporting portion of #2013-193, SAO did not complete re-testing of this finding after being unable to secure samples after the April 2014 implementation date. Subsequently, UT Southwestern conducted our own tests, with a sample size of 50 financial reports out of 74 total possible reports, a sample size that is greater than normal audit standards. On three separate tests, UT Southwestern showed 100% on time for financial reporting. This was independently verified by Federal Sponsors (ex: NIH eRA Commons) that show UT Southwestern to be 100% compliant with timely reporting requirements. It should be noted that the sponsors of the entire population of 50 samples show the reports to be fully on-time, in accordance to the original or modified submission due dates. In addition, independent verification from DOD and DOE show UT Southwestern to be 100% on time. This shows significant realization and strength of the effectiveness of the fully implemented corrective action plan. UT Southwestern provided all the information above to SAO in January 2015.

UT Southwestern Sponsored Programs recently undertook and completed a comprehensive reorganization of the department, addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened overall controls and increased the level of fiscal compliance and monitoring activities across sponsored programs activities, particularly those activities related to timeliness and accuracy of financial reporting. This reorganization and implementation was previously reported to SAO with an April 2014 implementation date. That reorganization was fulfilled, completed and implemented per the corrective action plan.

Upon the hire of a new Assistant Vice President of Sponsored Programs on April 2, 2014, all financial reporting pre-existing issues and opportunities for improvement were identified. An additional process improvement initiative, focusing on financial reporting, will be launched with an anticipated completion date of August 2015. Included in the process improvements are a review of policies and guidance that continue to support and assure the timely submission of financial reports.

Implementation Date: August 2015

Responsible Person: *David Ngo*

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

Initial Year Written: 2013
Status: Implemented

National Institutes of Health

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)).

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:

CFDA No.	CFDA Title	Award Number	Award Year
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

CFDA No.	CFDA Title	Award Number	Award Year
93.855	Allergy, Immunology and Transplantation Research	5R01AI05306710	January 1, 2008 to December 31, 2012

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, 2013, through August 31, 2014. The audit work included control and compliance tests at seven higher education institutions 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 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, 2014. 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 the controls identified for each direct and material compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data that each audited higher education institution audited 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.

Information collected and reviewed included the following:

- Higher education institution 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 reports and data used to support reports, revenues, and other compliance areas.
- Information system support related to general controls over information systems that affect 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 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 policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.

Project Information

Audit fieldwork was conducted from September 2014 through January 2015. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

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- Parsons Dent Townsend, CGAP, CICA (Assistant Project Manager)
- Jennifer Lehman, MBA, CIA, CFE, CGAP (Research and Development Coordinator
- Serra Tamur, MPAff, CISA, CIA (Information Technology Coordinator)
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- Dana Musgrave, MBA (Quality Control Reviewer)
- Audrey O'Neill, CGAP, CIA (Quality Control Reviewer)
- James Timberlake, CIA (Audit Manager)

Copies of this report have been distributed to the following:

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The Honorable Joe Straus III, Speaker of the House, Joint Chair
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The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Otto, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

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