



**John Keel, CPA**  
**State Auditor**

A Report on

**State of Texas Compliance with  
Federal Requirements for the  
Research and Development  
Cluster of Federal Programs for  
the Fiscal Year Ended  
August 31, 2012**

February 2013  
Report No. 13-020



A Report on

# State of Texas Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2012

SAO Report No. 13-020  
February 2013

## Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster of federal programs in fiscal year 2012.

As a condition of receiving federal funding, U.S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain annual Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, procurement, reporting, and monitoring of non-state entities to which the State passes federal funds. The requirements for 1 of those 14 areas vary by federal program and outline special tests that auditors are required to perform, such as requirements related to identification of key personnel who work on each federal award. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$75,562,558 in federal funds during fiscal year 2012 and (2) other selected federal programs.

From September 1, 2011, through August 31, 2012, the State of Texas expended \$50.2 billion in federal funds for federal programs and clusters of federal programs. The State Auditor's Office audited compliance with requirements for the Research and Development Cluster of federal programs at seven higher education institutions. Those entities spent \$888,043,799 in federal Research and Development Cluster funds during fiscal year 2012.

### The Research and Development Cluster of Federal Programs

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

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

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

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

Auditors identified 21 findings for the Research and Development Cluster of federal programs, including 15 findings classified as significant deficiencies and non-compliance and 6 findings classified as significant deficiencies. Auditors did not identify any Research and Development Cluster findings classified as a material weakness or material non-compliance (see text box for definitions of finding classifications).

#### Finding Classifications

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

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

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

## Key Points

**All seven higher education institutions audited complied in all material respects with the federal requirements tested for the Research and Development Cluster of federal programs.**

Although auditors identified findings at the seven higher education institutions audited, it is important to note that no finding was material to the Research and Development Cluster of federal programs. While this indicates that the State of Texas complied in all material respects with the requirements tested, the seven higher education institutions audited should correct certain non-compliance and significant deficiencies, which are summarized below.

**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 example:

- The University of Texas Medical Branch at Galveston applied an incorrect indirect cost rate to federal expenditures because it entered the incorrect rate into its financial system for one award.
- The University of North Texas and the University of Texas Medical Branch at Galveston did not always ensure that federally funded expenditures were allowable.
- The University of Texas at Austin and the University of Texas Medical Branch at Galveston did not always periodically review and adjust rates they charged to federal awards for performing specialized services internally.
- At the University of Texas Health Science Center at Houston, the University of Houston, and the University of Texas at San Antonio, auditors identified control weaknesses related to time and effort reporting, approval of transactions, and recording of federal transactions. In addition, auditors were unable to determine whether controls over indirect cost charges at the University of Texas M. D. Anderson Cancer Center were operating effectively. Based on the results of

testing, those weaknesses did not result in non-compliance with federal requirements.

**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 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 (1) maintain adequate property records for equipment or (2) ensure that they adequately safeguarded equipment during fiscal year 2012.

**The higher education institutions audited did not always comply with reporting requirements.**

Recipients of Recovery Act funds must comply with federal requirements in areas such as reporting, procurement, and monitoring of awards passed through to non-state entities; those requirements are in addition to the federal requirements applicable to all types of federal awards. Four higher education institutions did not notify non-state entities to which they passed Recovery Act funds of all required information when they awarded funds and/or when they disbursed funds to the non-state entities. Those higher education institutions were the University of North Texas, the University of Texas Medical Branch at Galveston, the University of Texas M. D. Anderson Cancer Center, and the University of Texas at San Antonio.

The University of Texas M. D. Anderson Cancer Center did not report subawards as required by the Federal Funding Accountability and Transparency Act during the audit period. It also did not obtain a Data Universal Numbering System (DUNS) number, as required, prior to making subawards to other entities.

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

The University of Texas at Austin and the University of Texas Health Science Center at Houston did not always adhere to state and federal procurement requirements, including requirements associated with competitive bidding and limited competition.

Additionally, the University of North Texas and the University of Texas at Austin did not always ensure that their vendors or subrecipients were not suspended or debarred from federal procurements prior to purchasing from those vendors or providing funds to those subrecipients.

## **Auditors followed up on higher education institutions' corrective action plans for 27 audit findings from prior fiscal years.**

Higher education institutions fully implemented corrective action plans for 15 (56 percent) of those 27 findings and partially implemented corrective action plans for the remaining 12 (44 percent) of those 27 findings.

## ***Summary of Management's Response***

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

## ***Summary of Information Technology Review***

The audit work included a review of general and application controls for key information technology systems related to the Research and Development Cluster of federal programs at the higher education institutions audited.

## ***Summary of Objectives, Scope, and Methodology***

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

The audit scope covered federal funds that the State spent for the Research and Development Cluster of federal programs from September 1, 2011, through August 31, 2012. 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 material to the Research and Development Cluster of federal programs 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, 2012. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data each higher education institution provided and determined that the data was reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster of federal programs.

# Contents

<i>Independent Auditor's Report</i> .....	1
<i>Schedule of Findings and Questioned Costs</i> .....	8
Section 1:	
Summary of Auditor's Results .....	9
Section 2:	
Financial Statement Findings .....	10
Section 3:	
Federal Award Findings and Questioned Costs .....	11
University of Houston .....	11
University of North Texas .....	13
University of Texas at Austin .....	16
University of Texas Health Science Center at Houston .....	22
University of Texas M. D. Anderson Cancer Center .....	27
University of Texas Medical Branch at Galveston .....	34
University of Texas at San Antonio .....	38
Summary Schedule of Prior Year Audit Findings .....	40
Texas A&M Agrilife Research .....	40
Texas A&M Engineering Experiment Station .....	47
Texas State University - San Marcos .....	48
University of Texas at Arlington .....	52
University of Texas at Austin .....	55
University of Texas at Brownsville .....	58
University of Texas Health Science Center at Houston .....	59
University of Texas Health Science Center at San Antonio .....	61
University of Texas Health Science Center at Tyler .....	65

University of Texas M. D. Anderson Cancer Center ..... 71  
University of Texas Medical Branch at Galveston ..... 73  
University of Texas Southwestern Medical Center ..... 76

***Appendix***

Objectives, Scope, and Methodology ..... 80

# Independent Auditor's Report

*State of Texas Compliance with  
Federal Requirements for the Research  
and Development Cluster of Federal  
Programs for the Fiscal Year Ended  
August 31, 2012*



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

## Compliance

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its Research and Development Cluster for the year ended August 31, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Research and Development Cluster is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2012. 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, 2012. 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. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.

In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
University of North Texas	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-151
	Research and Development Cluster	Procurement and Suspension and Debarment	13-152
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-153
University of Texas at Austin	Research and Development Cluster	Allowable Costs/Cost Principles	13-160
	Research and Development Cluster	Equipment and Real Property Management	13-161
	Research and Development Cluster	Procurement and Suspension and Debarment	13-162
University of Texas Health Science Center at Houston	Research and Development Cluster	Procurement and Suspension and Debarment	13-166
University of Texas M. D. Anderson Cancer Center	Research and Development Cluster	Period of Availability of Federal Funds	13-170
	Research and Development Cluster	Reporting	13-171
	Research and Development Cluster	Subrecipient Monitoring	13-172
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-173
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-174
University of Texas Medical Branch at Galveston	Research and Development Cluster	Equipment and Real Property Management	13-175
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-176
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-179

### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the Research and Development Cluster. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the Research and Development Cluster in order to determine our

auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control over compliance which are described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Procurement and Suspension and Debarment	13-149
University of North Texas	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-151
	Research and Development Cluster	Procurement and Suspension and Debarment	13-152
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-153
University of Texas at Austin	Research and Development Cluster	Allowable Costs/Cost Principles	13-160
	Research and Development Cluster	Equipment and Real Property Management	13-161
	Research and Development Cluster	Procurement and Suspension and Debarment	13-162
University of Texas Health Science Center at Houston	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-165

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
University of Texas M. D. Anderson Cancer Center	Research and Development Cluster	Procurement and Suspension and Debarment	13-166
	Research and Development Cluster	Reporting	13-167
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Allowable Costs/Cost Principles	13-168
	Research and Development Cluster	Cash Management	13-169
	Research and Development Cluster	Period of Availability of Federal Funds	13-170
	Research and Development Cluster	Reporting	13-171
	Research and Development Cluster	Subrecipient Monitoring	13-172
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-173
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-174
University of Texas Medical Branch at Galveston	Research and Development Cluster	Equipment and Real Property Management	13-175
	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-176
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	13-178
University of Texas at San Antonio	Research and Development Cluster-ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	13-179

### 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, 2012, 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, 2012*.

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

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

John Keel, CPA  
State Auditor

February 21, 2013

**Schedule of Federal Program Expenditures for  
The Research and Development Cluster  
For the State of Texas  
For the Year Ended August 31, 2012**

Schedule of Federal Program Expenditures			
Higher Education Institution Audited	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
University of Houston			
Other Than American Recovery and Reinvestment Act	\$ 5,155,947	\$ 43,942,780	\$ 49,098,727
American Recovery and Reinvestment Act	266,241	3,474,586	3,740,827
University of North Texas			
Other Than American Recovery and Reinvestment Act	534,550	14,130,386	14,664,936
American Recovery and Reinvestment Act	53,788	1,020,036	1,073,824
University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	16,885,983	305,530,213	322,416,196
American Recovery and Reinvestment Act	1,938,259	20,936,716	22,874,975
University of Texas Health Science Center at Houston			
Other Than American Recovery and Reinvestment Act	15,109,318	105,470,429	120,579,747
American Recovery and Reinvestment Act	12,183,933	10,162,798	22,346,731
University of Texas M. D. Anderson Cancer Center			
Other Than American Recovery and Reinvestment Act	12,026,266	169,461,434	181,487,700
American Recovery and Reinvestment Act	2,546,944	8,147,846	10,694,790
University of Texas Medical Branch at Galveston			
Other Than American Recovery and Reinvestment Act	8,514,721	94,520,033	103,034,754
American Recovery and Reinvestment Act	201,243	3,088,516	3,289,759
University of Texas at San Antonio			
Other Than American Recovery and Reinvestment Act	777,518	28,942,326	29,719,844
American Recovery and Reinvestment Act	111,299	2,909,690	3,020,989
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	\$ 59,004,303	\$ 761,997,601	\$ 821,001,904
Total Audited Research and Development American Recovery and Reinvestment Act	\$ 17,301,707	\$ 49,740,188	\$ 67,041,895
Total Audited	\$ 76,306,010	\$ 811,737,789	\$ 888,043,799
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p> <p>Note 2: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled \$707,352,639 for the year ended August 31, 2012. Of that amount, \$26,345,916 was American Recovery and Reinvestment Act expenditures.</p> <p>Note 3: The Research and Development Cluster of federal programs includes many programs funded by various federal agencies. For a list of Research and Development expenditures by program or by federal awarding agency, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p>			

# Schedule of Findings and Questioned Costs

*State of Texas Compliance with  
Federal Requirements for the Research  
and Development Cluster of Federal  
Programs for the Fiscal Year Ended  
August 31, 2012*

## 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, 2012*.

### 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:  
Unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Cluster	Research and Development

Dollar threshold used to distinguish between type A and type B programs: \$75,562,558

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, 2012*.

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).

**University of Houston**

Reference No. 13-149

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

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

Segregation of Duties

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

Questioned Cost: \$ 0  
Federal Agencies that Provide R&D Awards

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

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

Approval of Transfers

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

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

Recommendations:

The University should:

- Establish appropriate segregation of duties for initiating and approving purchase requisitions, purchase vouchers, and journal entries.

- Strengthen controls to ensure that its Office of Contracts and Grants approves all non-payroll cost transfers for federal funds as its policy requires.

Management Response and Corrective Action Plan:

*We have informed all voucher and requisition final approvers that all vouchers and requisitions must be initiated into workflow by someone other than the final approver. We have reminded journal approvers that all expenditure transfer journals involving grant cost centers must be routed through the Office of Contracts and Grants before final approval. We have requested modifications to the UHS Finance System that would prevent final approvers from being able to both initiate and approve the same voucher or requisition and that would alert journal final approvers when a grant expenditure transfer journal pending final approval was not routed through the Office of Contracts and Grants.*

*Implementation Date: April 1, 2013*

*Responsible Person: Mike Glisson*

**University of North Texas**

Reference No. 13-151

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

**Research and Development Cluster**

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

**Award numbers – CFDA 84.217, TRIO\_McNair Post-Baccalaureate Achievement, P217A070021 and CFDA 47.076, Education and Human Resources, 0833706**

**Type of finding – Significant Deficiency and Non-Compliance**

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220, Appendix A, C.2).

Questioned Cost: \$0

U.S. Department of Education  
National Science Foundation

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

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

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

Recommendation:

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

Management Response and Corrective Action Plan:

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

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

**Implementation Date:** Complete

**Responsible Persons:** Susan Sims and Connie Ross

Reference No. 13-152

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0

National Science Foundation  
U.S. Department of Defense

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

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

Recommendation:

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

Management Response and Corrective Action Plan:

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

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

*Implementation Date: Complete*

*Responsible Person: Carolyn Cross*

Reference No. 13-153

**Special Tests and Provisions – R3 – Subrecipient Monitoring**

**Research and Development Cluster - ARRA**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0

National Science Foundation

**The University of North Texas (University) did not send the required notification of Recovery Act information at the time of disbursement of funds to its one Recovery Act subrecipient.** The University did not have a process to ensure that it sent that notification at the time of disbursement. Without receiving a notification at the proper time, subrecipients could report inaccurate Recovery Act expenditures.

Recommendation:

The University should establish and implement procedures to help ensure that it makes required notifications when it disburses Recovery Act funds to subrecipients.

Management Response and Corrective Action Plan:

*The UNT Office of Research Services agrees. The subrecipient vendor record in PeopleSoft has been enhanced so that check stubs of future payments, if any, will include the following:*

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

*Implementation Date: Complete*

*Responsible Person: Britt Krhovjak*

**University of Texas at Austin**

Reference No. 13-160

**Allowable Costs/Cost Principles**

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

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency and Non-Compliance**

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all facilities and administrative costs. Rates shall be adjusted at least biennially and shall take into consideration over/underapplied costs of the previous period(s) (Title 2, Code of Federal Regulations, Section 220, Appendix A, J.47).

Questioned Cost: \$ 0

Federal Agencies that Provide R&D Awards

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

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

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

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

Recommendation:

The University should:

- Ensure that service center rates are designed to recover only the costs for the services provided.
- Develop and maintain a rate proposal for each service center.
- Perform biennial reviews of service centers' rates.

Management Response and Corrective Action Plan:

The University was unable to provide a prior approved proposal for the service center noted above, but did provide a copy of the current draft rate proposal at the request of the SAO. Four of the five service centers are currently under review and will be completed by February 2013. The fifth service center’s review will begin May 2013. Proposals for service centers are saved in a central network server and a final copy is provided to the service center manager for their records.

Balances for all service centers are reviewed annually to ensure a service center does not operate at a deficit or surplus. In addition, budgets are reviewed annually against all current and historical expenditures by the service center analyst to ensure they are appropriate and associated with the purpose of the service center.

To ensure timely review and updates of service centers, cross-training in the Accounting Department is taking place to allow additional resources to be allocated to Service Center reviews. As of January 2013, 77% of biennial reviews were completed with 9% to be finalized by February. The remaining 14% will be completed by fiscal year end.

Implementation Date: Service Center Reviews — August 2013

Responsible Person: Virginia Oviedo

Reference No. 13-161

**Equipment and Real Property Management**

(Prior Audit Issue 12-170)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding –Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 59,950  
U.S. Department of Energy

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

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

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



**UNIVERSITY OF TEXAS AT AUSTIN**

---

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

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

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

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

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

The issues above affected the following awards:

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

Recommendations:

The University should:

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

Management Response and Corrective Action Plan:

*The University agrees with the finding noted above. We continuously strive to improve controls surrounding property management. Since many of the controls associated with inventory occur at the departmental level, Inventory Services has continuous outreach with University Business Officers for their support in improving inventory controls. This is demonstrated through such on-going efforts like increasing the number of departmental spot reviews, enhancement of the spot review program, creation of a reporting calendar, an internal self-assessment program as required by the Department of Defense, a training/coaching/remediation program, continued updates to the Inventory Guidance section of the University's Handbook of Business Procedures, inventory awareness training and routine exception reporting to identify high-profile missing items. These efforts are ongoing. We will also share these findings with the college and school business officers and property managers to emphasize the importance of compliance with Inventory Guidance.*

*Implementation Date: Property Record Management outreach — ongoing  
Share Findings with Business Officers — April 2013*

*Responsible Person: Janie Kohl*

Reference No. 13-162

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

Competition in Procurement

All procurement transactions shall be conducted in a manner to provide, to maximum extent practical, open and free competition. In addition, procurement records and files shall include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price. (Title 2, Code of Federal Regulations (CFR), Sections 215.43 and 215.46). Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action (Title 2, CFR, Section 215.45).

Questioned Cost: \$10,821

U.S. Department of Health and Human Services

The University of Texas at Austin's (University) *Handbook of Business Procedures* requires that it perform a cost reasonableness analysis and include a justification for sole source purchases for all non-competitive procurements that exceed \$5,000. In its sole source justification, the University's purchasing department is required to (1) identify the unique features of the particular product or service, (2) explain the need for the unique features of the product or

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

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

#### Suspension and Debarment

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

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

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

#### Recommendations:

The University should:

- Maintain documented justification to support procurements for which competition is limited.
- Document its basis for contractor selection, its rationale for the method of procurement, and its cost or price analysis for procurements it makes through its electronic marketplace program.
- Document and maintain its suspension and debarment verification for vendors associated with purchases of at least \$25,000.

#### Management Response and Corrective Action Plan:

*The University agrees with the findings. The purchasing staff that reviews and approves order requests greater than \$5,000 will be reminded of the documentation required to support procurements where competition is limited. The ability to upload supporting documents to our ecommerce system so documents are not misplaced after order approval is on our future roadmap.*

*The purpose of an ecommerce platform is to reduce the transactional processing costs for the university. Suppliers selected to participate in UT Market are those that have high volume of both purchase orders and invoices. Most orders using the University's ecommerce system are less than \$5,000 and considered open market purchases.*

*Orders that do exceed \$5,000 are final approved by the Purchasing Office and follow normal guidelines for purchases of that amount. Purchasing Office staff that perform the final review and approval of these orders will be instructed in the proper way to verify cost/price analysis when appropriate and keep copies of all documentation.*

*Policy states debarment checks must be performed for purchases over \$25,000. Our interpretation of the policy is that the total value of the order must exceed \$25,000. As our interpretation differs from that of the state, we will update our procedures so that the gross amount of the order prior to any trade-ins or discounts, is taken into account when deciding whether a debarment check is appropriate.*

*Implementation Date:      Review of documentation with purchasing staff — February 2013  
Update of online procedures — May 2013*

*Responsible Person:      Jerry Fuller*

**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)).

Questioned Cost: \$0

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

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

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

The following awards were affected by the issue noted above:

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

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

Recommendation:

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

Management Response and Corrective Action Plan:

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

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

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

*Implementation Date: July 2013*

*Responsible Person: Ryan Bien*

Reference No. 13-166

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

All procurement transactions shall be conducted in a manner to provide, to maximum extent practical, open and free competition. In addition, procurement records and files shall include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price (Title 2, Code of Federal Regulations, Sections 215.43 and 215.46).

Questioned Cost: \$11,672

U.S. Department of Health and Human Services

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

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

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

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

Recommendations:

The Health Science Center should:

- Comply with its requirements for all procurements by obtaining competitive bids, providing justification for limiting competition, or identifying an emergency basis for limiting competition.
- Strengthen controls to ensure that it performs and documents due diligence for sole source purchases and to ensure that it solicits at least two bids from historically underutilized businesses when required.

Management Response and Corrective Action Plan:

Response-Sole source procurement for a hotel: The sole source was determined to be Best Value procurement. As the selected host for the two day event, the department reviewed other hotels in the area, but believed this particular hotel provided the most central location with ease of access and best suited their annual meeting requirements.

Corrective Action Plan: Management will meet with Buyers to ensure they understand and implement the required level of documentation for any Best Value determination.

Response-Sole Source procurement for pharmaceuticals: This sole source was determined to be a Best Value procurement as outlined in the Texas Government Code Section 2155.074 which allows for determining factors other than cost such as "the quality and reliability of the goods and services" and "indicators of probable vendor performance under the contract such as past vendor performance . . . the vendor's experience or demonstrated capability and responsibility". The department has a longstanding successful relationship (7-8 years 180 orders) of utilizing this company for drugs. Of the 180 orders, 98% of them are under \$5000.

Corrective Action Plan: Management will meet with Buyers to ensure they understand and implement the required level of documentation for any Best Value determination.

Response-Obtaining a minimum of two bids from Historically Underutilized Businesses: Management supports the use of HUBs and acknowledges the requirement when sources are available or file documentation when HUBs cannot be located on the CMBL for a particular good or service.

Corrective Action Plan: Management will meet with Buyers to reinforce the understanding that all informal bidding must also include solicitation of a minimum two bids from Historically Underutilized Businesses when available. If no HUBs can be located on the CMBL for a particular good or service, the file shall also include this documentation.

Implementation Date: January 2013

Responsible Person: Richard Rawson

Reference No. 13-167

**Reporting**

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

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

Questioned Cost: \$ 0
Federal Agencies that Provide R&D Awards

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



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

Recommendation:

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

Management Response and Corrective Action Plan:

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

*Implementation Date: January 2013*

*Responsible Person: Jodi Ogden*

**University of Texas M. D. Anderson Cancer Center**

Reference No. 13-168

**Allowable Costs/Cost Principles**

(Prior Audit Issue 11-176)

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency**

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

Questioned Cost: \$ 0

Federal Agencies that Provide R&D Awards

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

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

Recommendation:

The Cancer Center should maintain evidence that its controls for indirect cost calculations are operating effectively.

Management Response and Corrective Action Plan:

*The Cancer Center's financial system is the basis for calculating indirect costs which have been incurred related to federal research and development expenditures. The Cancer Center will maintain evidence that the control for the indirect cost calculation are operating effectively.*

Implementation Date: September 2012

Responsible Person: Claudia Delgado

Reference No. 13-169

**Cash Management**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency**

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

Questioned Cost: \$ 0

Federal Agencies that Provide R&D Awards

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

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

Recommendation:

The Cancer Center should maintain evidence of its controls over the drawdown of federal funds.

Management Response and Corrective Action Plan:

*The Cancer Center maintains evidence of its controls over the drawdown of federal funds.*

*Implementation Date: September 2012*

*Responsible Person: Claudia Delgado*

Reference No. 13-170

**Period of Availability of Federal Funds**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Period of Availability

When a funding period is specified, a recipient may charge to a grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations

Questioned Cost: \$ 24,869

U.S. Department of Health and Human Services

incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, Code of Federal Regulations, Section 215.71(b)).

**For 15 (25 percent) of 60 transactions tested that occurred after the end of the grants' period of availability, the University of Texas M. D. Anderson Cancer Center (Cancer Center) did not obligate the transactions within the funding period.** Specifically:

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

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

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

Cost Transfer Review and Approval

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

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

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

All of the issues discussed above affected the following awards:

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.XXX	Untitled	5 N01 AR62279	October 1, 2010 to March 29, 2012	\$ 84
93.XXX	Untitled	HHSA29020010015C 03	October 6, 2010 to October 5, 2011	1,872
93.XXX	Untitled	N01-CM-62202 09	January 1, 2010 to September 30, 2011	6,428
93.XXX	Untitled	ACOSOG-Z1041	July 2, 2007 to March 31, 2012	562

**UNIVERSITY OF TEXAS M. D. ANDERSON CANCER CENTER**

---

<u>CFDA</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Cost</u>
93.393	Cancer Cause and Prevention Research	5 R01 CA137625 02	December 1, 2010 to November 30, 2011	2,972
93.393	Cancer Cause and Prevention Research	1 R01 CA151899 01 A1	July 5, 2011 to April 30, 2012	186
93.393	Cancer Cause and Prevention Research	5 R01 CA119215 05	August 5, 2010 to August 31, 2011	9,244
93.393	Cancer Cause and Prevention Research	5 R01 CA139020 02	March 18, 2010 to August 31, 2011	0
93.393	Cancer Cause and Prevention Research	5 U01 CA118444 05	August 23, 2006 to July 31, 2011	0
93.394	Cancer Detection and Diagnosis Research	5 R01 CA132032 02	March 1, 2009 to February 28, 2012	2,228
93.395	Cancer Treatment Research	5 U10 CA98543 09	March 1, 2011 to February 29, 2012	470
93.395	Cancer Treatment Research	5 U10 CA010953 42	September 1, 1978 to December 31, 2010	0
93.395	Cancer Treatment Research	5 R01 CA096652 07	July 18, 2002 to July 31, 2011	0
93.839	Blood Diseases and Resources Research	U01 HL69334	July 1, 2011 to June 30, 2012	812
93.855	Allergy, Immunology and Transplantation Research	5 U19 AI071130 05	July 1, 2010 to June 30, 2011	<u>11</u>
Total Questioned Costs				\$24,869

Recommendations:

The Cancer Center should:

- Strengthen controls to help ensure that it obligates funds within the period of availability for those funds and that it liquidates obligations within required time frames.
- Strengthen controls to help ensure that it adequately reviews all adjustments and transfers to federal grant expenditures.

Management Response and Corrective Action Plan:

*While the Cancer Center allowed these expenditures to post to our accounting system, manual controls are in place to ensure these expenses were not included in the Financial Status Reports and not requested for reimbursement from the sponsoring agency.*

*The Cancer Center will strengthen its controls to help ensure these expenditures are within the period of availability and that transfers are adequately reviewed.*

*Implementation Date: March 2013*

*Responsible Person: Claudia Delgado*

Reference No. 13-171

**Reporting**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0  
Federal Agencies that Provide R&D Awards

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

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

Recommendation:

The Cancer Center should develop and implement a process to identify and report subawards that are subject to FFATA requirements.

Management Response and Corrective Action Plan:

*The Cancer Center is developing and will implement a process to identify and report subawards that are subject to FFATA requirements.*

*Implementation Date: May 2013*

*Responsible Person: Claudia Delgado*

Reference No. 13-172

**Subrecipient Monitoring**

**Research and Development Cluster**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0  
U.S. Department of Health and Human Services

**For 4 (17 percent) of 24 non-American Recovery and Reinvestment Act (Recovery Act) subawards tested that were awarded after October 1, 2010,**

**the University of Texas M. D. Anderson Cancer Center (Cancer Center) did not obtain a DUNS number prior to making a subaward.** The Cancer Center uses a pre-award process to document subrecipient information, including an entity's DUNS number. However, the Cancer Center did not consistently apply that process.

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

Recommendation:

The Cancer Center should strengthen procedures to ensure that it obtains a DUNS number prior to making an award to a subrecipient.

Management Response and Corrective Action Plan:

*The Cancer Center is developing and implementing a process to strengthen procedures to ensure that we obtain a DUNS number prior to issuing an award to a subrecipient.*

*Implementation Date: May 2013*

*Responsible Person: Claudia Delgado*

Reference No. 13-173

**Special Tests and Provisions – R3 – Subrecipient Monitoring**

**Research and Development Cluster - ARRA**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0

U.S. Department of Health and Human Services

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

- For 1 (7 percent) of 15 Recovery Act subawards tested, the Cancer Center did not identify required Recovery Act information to the subrecipient at the time of the disbursement of funds.
- For 2 (13 percent) of 15 Recovery Act subawards tested, the Cancer Center did not send the required notification of Recovery Act information at the time it made those subawards.

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

Recommendation:

The Cancer Center should consistently apply its process to notify its subrecipients of required Recovery Act information both at the time of the award and at the time of disbursement.

Management Response and Corrective Action Plan:

*The Cancer Center will review its process to ensure that we are consistently notifying our subrecipients of required Recovery Act information both at the time of the award and at the time of disbursement.*

*Implementation Date: February 2013*

*Responsible Person: Claudia Delgado*



**University of Texas Medical Branch at Galveston**

Reference No. 13-174

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

**Research and Development Cluster**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

Direct Costs

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations (CFR), Section 220, Appendix A, C.2).

Questioned Cost: \$ 0

U.S. Department of Health and  
Human Services

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

Indirect Costs

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

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

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.

Recommendations:

The Medical Branch should:

- Establish and implement procedures to ensure that it does not charge unallowable costs to federal awards.
- Establish and implement a process to ensure that it uses the correct rate to calculate indirect costs.
- Establish and implement policies and procedures to ensure that it reviews service center rates at least every two years and that service centers' working capital reserves do not exceed 60 days of cash expenses.

Management Response and Corrective Action Plan:

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

*Implementation Date: August 2013*

*Responsible Person: Ken Hall*

*Management agrees with the auditor's recommendation and will take steps to establish and implement a process to ensure that the correct rate is used to calculate indirect costs. Research Operations and Grants and Contracts Accounting will each establish a process for review and correction, if necessary, of the indirect cost rate at the time of notification of the new award by the Pre-Award office.*

*Implementation Date: May 2013*

*Responsible Persons: Laura Rosales and Glenita Segura*

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

*Implementation Date: August 2013*

*Responsible Persons: Glenita Segura, Craig Ott, and Britt Madden*

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**

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

Questioned Cost: \$ 0
Federal Agencies that Provide R&D Awards

identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment, unit acquisition cost; and ultimate disposition data for the equipment.

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

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

**The University of Texas Medical Branch at Galveston (Medical Branch) did not always maintain adequate property records or adequately safeguard its equipment.** For 2 (3 percent) of 60 equipment items tested, the Medical Branch's property records did not contain information on the ultimate disposition of the items. Specifically:

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

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

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

Recommendations:

The Medical Branch should:

- Develop and implement processes to ensure that it maintains complete and accurate property records for equipment.
- Develop and implement controls to ensure that it has adequate safeguards to prevent loss, damage, or theft of equipment.

Management Response and Corrective Action Plan:

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

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

*Implementation Date:* These process enhancements are already in place and have been implemented.

*Responsible Person:* Craig Ott

Reference No. 13-176

**Special Tests and Provisions – R3 – Subrecipient Monitoring**

**Research and Development Cluster – ARRA**

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

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

**Type of finding –Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0
U.S. Department of Health and Human Services

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

Recommendation:

The Medical Branch should establish and implement procedures to ensure that it includes all required Recovery Act information in its notifications when it disburses Recovery Act funds to subrecipients.

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 Recovery Act information is included in the notifications when disbursements of Recovery Act funds to subrecipients are made. A new ARRA subaward payment notification form template with all required information has been created and implemented.*

*Implementation Date:* November 2012

*Responsible Person:* Glenita Segura

<b>University of Texas at San Antonio</b>
---

Reference No. 13-178

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles****Research and Development Cluster****Award year – July 1, 2011 to December 31, 2011****Award number – CFDA 47.041, Engineering Grants, IIP-1110189****Type of finding – Significant Deficiency**

Allowable costs must be reasonable, allocable to sponsored agreements, and treated consistently. A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement or it benefits both the sponsored agreement and other work at the institution, in proportions that can be approximated through reasonable methods (Title 2, Code of Federal Regulations, Section 220, Appendix A, (C)(2-4(a))). Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience (Title 2, Code of Federal Regulations, Section 220, Appendix A, (C)(4)(b)).

Questioned Cost: \$ 0

National Science Foundation

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

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

Recommendation:

The University should ensure that it does not charge institutional expenditures or non-federal expenditures to federal grants.

Management Response and Corrective Action Plan:

*We acknowledge this finding and recognize it as a rare instance and isolated case. The previous Office of Post Award Administration (OPAA) became aware of this issue at the time of processing a cost transfer correction. Proper levels of review and approval have been in place for monitoring expenditures.*

*The transactions identified in this finding were related to purchase orders initiated and approved by the Principal Investigator (PI) and department prior to review and approval by OPAA. The purchase orders related to the expenditures identified as findings included typical research related items. The payment of purchase order related expenditures is handled by processing payment of an invoice by the Disbursements and Travel Services Office. Within a reasonable time frame and per our institutional cost transfer policy, the department requested a correction justifying these expenditures as needing to be removed from the federal grant to an institutional start-up account.*

*Effective September 1, 2012, the University restructured its Vice President for Research division to include six (6) Research Service Centers (RSC) under the Office of Sponsored Project Administration (OSPA). Each RSC contains*

*specialized staff to facilitate proposal submissions and grant administration. This restructuring has allowed for the RSC staff to work more closely with the departments and principal investigators. As part of the restructuring, business processes for postaward activities were reviewed and updated. There has been more emphasis on training and improved communications with principal investigators and departments concerning A-21 Cost Principles to ensure institutional expenditures or non-federal expenditures are not charged to federal grants.*

*Implementation Date: January 2013 and ongoing*

*Responsible Person: James J. Casey Jr., J. D.*

Reference No. 13-179

**Special Tests and Provisions – R3 – Subrecipient Monitoring**

**Research and Development Cluster – ARRA**

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

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

**Type of finding – Significant Deficiency and Non-Compliance**

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

Questioned Cost: \$ 0

National Science Foundation  
U.S. Department of Justice

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

Recommendation:

The University should establish and implement procedures to help ensure that it makes required notifications when it disburses Recovery Act funds to subrecipients.

Management Response and Corrective Action Plan:

*Effective September 1, 2012, the University restructured its Vice President for Research division to include six (6) Research Service Centers (RSC) under the Office of Sponsored Project Administration (OSPA). The centralized OSPA has established and implemented new procedures for the RSCs to include the required notifications on voucher payments processed for disbursement of funds to subrecipients funded by ARRA. The RSCs enter and/or review and approve voucher payments prior to final approval by the Disbursements and Travel Services Office. OSPA will monitor compliance of the procedure.*

*Implementation Date: October 2012*

*Responsible Person: James J. Casey Jr., J. D.*

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 2011 Schedule of Findings and Questioned Costs.
• Each finding in the 2011 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, 2012) has been prepared to address these responsibilities.

Texas A&M Agrilife Research

Reference No. 12-127

Allowable Costs/Cost Principles

Research and Development Cluster

Award years - See below

Award numbers - See below

Type of finding - Significant Deficiency and Non-Compliance

After-the-fact Confirmation of Payroll

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

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

Initial Year Written: 2011
Status: Partially Implemented

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

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

The issue above affected the following award:

Table with 3 columns: CFDA, Award Number, Award Year. Row 1: 93.865, 1R01HD058969-01A2, April 15, 2010 to February 28, 2015

---

**TEXAS A&M AGRILIFE RESEARCH**

---

Corrective Action:

Corrective action was taken.

Indirect Costs

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

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

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

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

The issue discussed above affected the following awards:

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



Recommendations:

AgriLife should implement a process to exclude subgrants and subcontracts payments in excess of \$25,000 from its calculation of modified total direct costs when calculating indirect costs.

Management Response and Corrective Action Plan 2011:

Indirect Costs

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

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

Management Response and Corrective Action Plan 2012:

*AgriLife has reviewed and revised the method it uses to track subrecipients in the accounting system. Previously each was given a separate account which made it difficult to track expenses back to the Prime award. The new process will keep each subrecipient imbedded in the prime award account and additional staff have been assigned to monitor this process.*

*Implementation Date: December 31, 2012*

*Responsible Persons: Michael McCasland and Diane Gilliland*

Reference No. 12-128

**Cash Management**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency**

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

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

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

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

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

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

Recommendation:

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

Management Response and Corrective Action Plan 2011:

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

Management Response and Corrective Action Plan 2012:

*The federal draw down procedure for AgriLife Research programs now conforms to established procedures and monitoring used by other federal programs with The Texas A&M University System Office of Sponsored Research Services.*

*Implementation Date: December 31, 2012*

*Responsible Persons: Michael McCasland and Diane Gilliland*

Reference No. 12-129

**Period of Availability of Federal Funds**

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

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

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

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

**AgriLife does not have a process to close grant accounts in the accounting system within the required 90-day closeout period.** While AgriLife has written policies and procedures that set project closeout requirements, it does

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

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

Recommendation:

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

Management Response and Corrective Action Plan 2011:

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

*Implementation Date: December 31, 2012*

*Responsible Persons: Michael McCasland and Diane Gilliland*

Reference No. 12-130

**Special Tests and Provisions – R3 – Subrecipient Monitoring**

**Research and Development Cluster - ARRA**

**Award year – January 28, 2010 to December 31, 2012**

**Award number – CFDA 81.087 DE-EE0003046 (ARRA), subaward number 28302-P**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2011 Status: Partially Implemented
---

U.S. Department of Energy
---------------------------

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

Recommendation:

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

Management Response and Corrective Action Plan 2011:

Research and Development Cluster – ARRA

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

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

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

Management Response and Corrective Action Plan 2012:

*Since the move to OSRS, a new group has been developed to specifically monitor subrecipients. However, this finding states that each and every ARRA payment to a single subrecipient was not labeled as ARRA funds. This has been discussed with AgriLife's fiscal office, where the checks are produced, and this notation requested on each payment under this account.*

*Implementation Date: December 31, 2012*

*Responsible Persons: Michael McCasland and Diane Gilliland*

**Texas A&M Engineering Experiment Station**

Reference No. 11-125

**Period of Availability of Federal Funds**

**Research and Development Cluster**

**Award year – September 30, 2008 to September 29, 2009**

**Award number – CFDA 12.902 H98230-08-C-0365**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2010  
Status: Implemented

U.S. Department of Defense

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

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

*Corrective Action:*

Corrective action was taken.

**Texas State University – San Marcos**

Reference No. 10-75

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles  
Period of Availability of Federal Funds**

**Research and Development Cluster**

**Award years - see below**

**Award numbers - see below**

**Type of finding - Significant Deficiency and Non-Compliance**

Time and Effort Certification

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

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

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

Initial Year Written: 2009  
Status: Partially Implemented

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

The issues discussed above affected the following awards:

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

Recommendations:

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

Management Response and Corrective Action Plan 2009:

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

Management Response and Corrective Action Plan 2010:

*10-75 to our knowledge was not tested for compliance. As Management stated in an email dated 9-22-2010, not enough data had accumulated for reasonable testing of compliance with management’s response to this finding. All process changes have been put in place and data continues to accumulate. Enough data should exist for testing during the next review.*

Management Response and Corrective Action Plan 2011:

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

Management Response and Corrective Action Plan 2012:

*Electronic effort system configured and currently undergoing final testing. System shall be in place for EOFY effort certification – August 2012.*

*Implementation Date: September 2012*

*Responsible Person: W. Scott Erwin*

Reference No. 10-77

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

**Award years – see below**

**Award numbers – see below**

**Type of finding - Significant Deficiency and Non-Compliance**

Procurement

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

Texas State University - San Marcos (University) has established procedures for processing contracted services contracts and documented them in University Policies and Procedures Statement No. 03.04.01. Employees are required to select a contractor on the basis of “best value” or demonstrated competence and qualifications, and on the amount of the fee. For 1 (4 percent) of 26

Initial Year Written:	2009
Status:	Implemented
National Oceanic and Atmospheric Administration	
U.S. Environmental Protection Agency	
National Science Foundation	
U.S. Department of Defense	
U.S. Fish and Wildlife	
U.S. Department of Justice	



procurements tested, the University did not retain documentation supporting the basis of its contractor selection. The University recorded the procurement as a professional and contract services contract for \$35,500. The University’s policy discussed above does not specifically address procurement file retention. Failure to fully record and retain documentation related to procurement transactions results in ineffective monitoring and increases the risk of entering into contractual agreements that do not provide the University with best value.

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

In addition, the University uses its accounting system to initiate and approve requisitions. Auditors reviewed assigned roles within the accounting system and determined that 50 (5 percent) of 990 users could both initiate and approve requisitions during a portion of fiscal year 2009. In May 2009, the University significantly reduced the segregation of duty risk by editing assigned roles so that only nine users could both initiate and approve requisitions. After fiscal year 2009, the University made further edits of the assigned roles and reduced the number of individuals with the dual roles to four users. The University’s information technology security policy requires the approval of the vice president before granting a user both of these roles. According to University staff, some grants do not have administrative support; therefore, one person has been assigned both roles. The lack of segregation of duties between requisitioner and approver increases the risk that federal funds will not be spent as intended.

The issues noted above are related to the following awards:

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

Suspension and Debarment

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

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

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

The issues noted above are related to the following awards:

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

Corrective Action:

Corrective action was taken.

**University of Texas at Arlington**

Reference No. 12-162

**Activities Allowed or Unallowed**  
**Allowable Costs/Cost Principles**  
**Cash Management**  
**Period of Availability of Federal Funds**  
**Procurement and Suspension and Debarment**

**Research and Development Cluster**

**Award years – September 1, 2010 to August 31, 2011 and August 15, 2008 to November 30, 2011**

**Award numbers – CFDA 11.611 70NANB5H1005 and 70NANB10H304, and CFDA 81.087 DE-FG36-08GO88170**

**Type of finding – Significant Deficiency and Non-Compliance**

Direct Costs

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

Initial Year Written: 2011  
Status: Partially Implemented

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

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

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

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

Recommendations:

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

Management Response and Corrective Action Plan 2011:

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

Management Response and Corrective Action Plan 2012:

- *The Office of Accounting and Business Services revised its procedure for Service Center Establishment and Maintenance (Procedure 2-37) in January 2013.*
- *An outside consulting firm was hired in the Fall of 2012 to help the university review service centers for compliance.*
- *The Facilities Management Service center will be brought into full compliance with UTA Procedure 2-37 and Title 2 CFR, Section 220, Appendix A, J.47 by April 30<sup>th</sup>, 2013.*

*Implementation Dates: Fall 2012 through April 30, 2013*

*Responsible Person: Linda Criswell, AVP Accounting Services*

Cost Accounting Disclosure Statement

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

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

Other Compliance Requirements

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

General Controls

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-163

**Special Tests and Provisions - R3 – Subrecipient Monitoring**

**Research and Development Cluster – ARRA**

**Award year – December 1, 2009 to August 31, 2011**

**Award number – CFDA 81.117 DE-EE0002680**

**Type of finding – Significant Deficiency and Non-Compliance**

Subrecipients of Recovery Act Funds

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

Initial Year Written: 2011
Status: Implemented

U.S. Department of Energy
---------------------------

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

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

General Controls

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

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

Corrective Action:

Corrective action was taken.

**University of Texas at Austin**

Reference No. 12-169

**Activities Allowed or Unallowed**  
**Allowable Costs/Cost Principles**  
**Cash Management**  
**Period of Availability of Federal Funds**  
**Procurement and Suspension and Debarment**  
**Reporting**  
**Special Tests and Provisions – Awards with ARRA Funding**  
**Special Tests and Provisions – Key Personnel**  
**Special Tests and Provisions – Indirect Cost Limitation**

(Prior Audit Issue 11-168)

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

Allowable Costs/Cost Principles

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

Initial Year Written: 2010  
Status: Partially Implemented  
  
Federal Agencies that provide R&D Awards

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

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

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

Corrective Action:

This finding was reissued as current year reference number: 13-160.

Other Compliance Requirements

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

General Controls

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-170

**Equipment and Real Property Management**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Equipment and Real Property Management

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

Initial Year Written: 2011  
Status: Partially Implemented

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

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

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

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

**UNIVERSITY OF TEXAS AT AUSTIN**

---

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

The issues above affected the following awards:

<u>CFDA</u>	<u>Agency</u>	<u>Award Number</u>	<u>Award Period</u>	<u>Questioned Cost</u>
12.300	U.S Department of Defense - Navy	N00039-91-C-0082	December 4, 1990 to December 31, 2001	\$ 11,072
		N00039-96-E-0077	May 1, 1996 to September 30, 2003	
81.000	U.S. Department of Energy	DE-FG03-93ER14334	March 1, 1993 to June 30, 2004	7,336
47.049	National Science Foundation	CHE-9319640	January 1, 1994 to December 31, 1999	6,164
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	October 22, 2001 to May 7, 2003	5,258
		N00039-96-E-0077	May 1, 1996 to September 30, 2003	
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	January 23, 2002 to December 30, 2010	5,088
47.000	National Science Foundation	EIA-0303609	September 1, 2003 to August 31, 2008	37,938
12.300	U.S. Department of Defense - Navy	N00024-01-D-6600	March 20, 2007 to March 19, 2011	50,000
<b>Total Questioned Costs</b>				<b>\$122,856</b>

Corrective Action:

This finding was reissued as current year reference number: 13-161.

General Controls

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

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

Corrective Action:

Corrective action was taken.



**University of Texas at Brownsville**

Reference No. 11-169

**Activities Allowed or Unallowed**  
**Allowable Costs/Cost Principles**  
**Cash Management**  
**Period of Availability of Federal Funds**  
**Procurement and Suspension and Debarment**  
**Special Tests and Provisions - Awards with ARRA Funding**

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

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

Initial Year Written: 2010  
Status: Implemented

Federal Agencies that Provide  
R&D Awards

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

Corrective Action:

Corrective action was taken.

**University of Texas Health Science Center at Houston**

Reference No. 11-172

**Allowable Costs/Cost Principles**

**Research and Development Cluster**

**Award years – August 1, 2009 to July 31, 2010, July 1, 2009 to June 30, 2010, March 1, 2010 to February 28, 2011, and September 23, 2009 to August 31, 2010**

**Award numbers – CFDA 93.701 1 R21AI079624 and 1 R01HL093029, CFDA 93.837 5 R01 HL088128, and CFDA 93.855 1 R56AI077679**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2010  
 Status: Partially Implemented  
 National Institutes of Health

**The University of Texas Health Science Center at Houston (Health Science Center) did not complete in a timely manner after-the-fact time and effort certifications for 4 (11 percent) of 36 payroll transactions tested.**

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

Corrective Action:

This finding was reissued as current year reference number: 13-165.

Reference No. 11-175

**Procurement and Suspension and Debarment**

(Prior Audit Issue 09-103)

**Research and Development Cluster**

**Award year – September 1, 2009 to August 31, 2010**

**Award number – CFDA 93.596 1001914017110001**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2008  
 Status: Implemented  
 U.S. Department of Health and Human Services

Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

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

Corrective Action:

Corrective action was taken.

**University of Texas Health Science Center at San Antonio**

Reference No. 12-171

**Davis-Bacon Act**

**Research and Development Cluster- ARRA**

**Award years – December 17, 2010 to September 8, 2011 and March 18, 2010 to December 31, 2011**

**Award numbers – CFDA 93.701, 3 UL1 RR025767-03S1 and CFDA 81.041, DE-EE0000116**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2011 Status: Implemented  U.S. Department of Health and Human Services U.S. Department of Energy
--

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-172

**Equipment and Real Property Management**  
**Activities Allowed or Unallowed**  
**Allowable Costs/Cost Principles**  
**Cash Management**  
**Period of Availability of Federal Funds**  
**Reporting**  
**Special Tests and Provisions – Key Personnel**  
**Special Tests and Provisions – Indirect Cost Limitation**

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

Equipment Management

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

Initial Year Written: 2011  
 Status: Implemented

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

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

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

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

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

The following awards were affected by the issues noted above:

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

93.279 P01 DA016719 June 1, 2003 to April 30, 2009  
93.856 R01 AI064537 April 1, 2005 to December 31, 2010

Other Compliance Requirements

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

General Controls

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

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-173

**Procurement and Suspension and Debarment**

**Research and Development Cluster- ARRA**

**Award years – December 17, 2010 to September 8, 2011 and March 18, 2010 to December 31, 2011**

**Award numbers – CFDA 93.701, 3 UL1 RR025767-03S1and CFDA 81.041, DE-EE0000116**

**Type of finding – Significant Deficiency and Non-Compliance**

Suspension and Debarment

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

Initial Year Written: 2011 Status: Implemented  U.S Department of Health and Human Services U.S. Department of Energy
---

a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.210 through 180.220 and 180.970).

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

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

Buy American

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

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

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

Corrective Action:

Corrective action was taken.

**University of Texas Health Science Center at Tyler**

Reference No. 12-174

**Allowable Costs/Cost Principles**

**Research and Development Cluster**

**Award years – July 1, 2011 to June 30, 2012; July 1, 2010 to June 30, 2011; June 1, 2010 to May 31, 2011; July 1, 2009 to June 30, 2011; February 1, 2009 to January 31, 2012; June 1, 2010 to May 31, 2012; June 1, 2011 to May 31, 2012; September 23, 2010 to August 31, 2011; January 1, 2009 to December 31, 2010; September 1, 2005 to August 31, 2011; December 1, 2008 to November 30, 2010; September 1, 2009 to August 31, 2011; February 1, 2010 to January 31, 2011; and February 1, 2011 to January 31, 2012**

**Award numbers – CFDA 93.837 5R18HL092955-03 and 1R21HL093547-01A2; CFDA 93.701 5R21AG031880-02; CFDA 93.701 3R01HL087017-04S1; CFDA 93.838 5R01HL087017-06; CFDA 93.701 5R21AI082335-02; CFDA 93.855 5R01AI088201-02; CFDA 93.855 1R56AI085135-01A1; CFDA 93.855 5R01AI054629-05; CFDA 93.838 1P01HL076406-05; CFDA 93.855 5R21AI073612-02; CFDA 93.855 5R21AI079747-02; and CFDA 93.838 2R01HL076206-05**

**Type of finding – Significant Deficiency and Non-Compliance**

Indirect Costs

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

Initial Year Written: 2011  
Status: Partially Implemented  
  
U.S. Department of Health and Human Services

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

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

Corrective Action:

Corrective action was taken.

After-the-fact Confirmation of Payroll

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for



professorial and professional staff, activity reports must be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220, Appendix A, (J)(10)).

**For 3 (9 percent) of 35 payroll items tested, the Health Science Center did not complete effort certifications.**

As a result, auditors could not verify whether the employees associated with those payroll items committed effort to the projects from which they were paid. Two of those errors occurred because an employee changed from being paid on an hourly status to being paid on a salaried status, but the Health Science Center did not process a necessary personnel action form; as a result, that employee was not added to the effort certification process. For the remaining error, the Health Science Center did not obtain an effort certification report before an employee transferred to another university. The total of those three payroll transactions was \$2,450.

Corrective Action:

Corrective action was taken.

Approval of Non-payroll Transactions

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

Recommendations:

The Health Science Center should obtain required approvals for all transactions.

Management Response and Corrective Action Plan 2011:

Management concurs with these recommendations. Corrective action plans follow:

Transaction Approvals

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

Management Response and Corrective Action Plan 2012:

*UTHSCT already had procedures for required approvals for all transactions, which have been reinforced. The Health Science Center purchasing department has a hard copy and electronic system in place to verify signature. This allows departments with their account numbers to only have properly approved transactions be processed with correct end-users and authorized personnel.*

*Implementation Date: August 2011, with ongoing reinforcement of this process*

*Responsible Person: Crystal Smith*

National Institutes of Health Salary Limit

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

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

Corrective Action:

Corrective action was taken.

Internal Service Charges

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-175

**Cash Management**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written: 2011  
Status: Implemented  
  
Federal Agencies that provide R&D Grants

The University of Texas Health Science Center at Tyler (Health Science Center) operates on a reimbursement basis under which its drawdowns of federal funds should be based only on expended amounts. **However, the Health**

Science Center has not established controls to ensure that it excludes expenses that have been incurred but not yet been paid (such as accounts payables) from its drawdown requests. The Health Science Center uses a report from its financial system, PeopleSoft, to determine the amount of federal funds that it should draw down. While that report correctly excludes some types of transactions (such as purchase orders and requisitions), it does not exclude expenses that have been incurred but not yet paid. As a result, the Health Science Center is not able to consistently minimize the time between its drawdowns of federal funds and its disbursement of those funds.

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-176

**Period of Availability of Federal Funds**

**Research and Development Cluster**

**Award year – August 1, 2008 to July 31, 2010**

**Award number - CFDA 93.855 1R56AI073966-01A2**

**Type of finding – Significant Deficiency and Non-Compliance**

Initial Year Written: 2011 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, Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, Code of Federal Regulations, Section 215.71).

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-177

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

**Award years - September 1, 2009 to August 31, 2012, September 26, 2008 to September 25, 2011, September 1, 2005 to August 31, 2011, September 30, 2001 to September 30, 2011, September 1, 2010 to August 31, 2011, and August 1, 2010 to July 31, 2013**

**Award numbers – CFDA 93.887 1C76HF16036-01-00, CFDA 93.000 HHSN27500800035C, CFDA 93.838 1P01HL076406-05, CFDA 93.262 5U50OH007541-10, CFDA 93.887 C76HF19545-01-00, and CFDA 93.262 1K01OH009674-01A1**

**Type of finding – Material Weakness and Non-Compliance**

Competition in Procurement

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

Initial Year Written: 2011  
Status: Implemented

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

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

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

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

Suspension and Debarment

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

equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.210 through 180.220 and 180.970).

**The Health Science Center did not document that it verified that vendors and subrecipients were not suspended or debarred from federal procurements.** Specifically, the Health Science Center could not provide evidence that it verified the suspension and debarment status for (1) all seven procurement contracts exceeding \$25,000 that auditors tested and (2) all seven subrecipient agreements that auditors tested. The Health Science Center asserted that it verified that the vendors and subrecipients were not suspended or debarred by searching EPLS as required, but it did not begin documenting its search until Summer 2011, after an internal audit of its procurement. However, for the fiscal year 2011 procurement contracts and subrecipient agreements tested, the Health Science Center did not document its EPLS search. Auditors searched the EPLS and verified that the vendors and subrecipients for the procurements and subrecipient awards tested were not suspended or debarred.

Corrective Action:

Corrective action was taken.

**University of Texas M. D. Anderson Cancer Center**

Reference No. 11-176

- Activities Allowed or Unallowed**
- Allowable Costs/Cost Principles**
- Cash Management**
- Period of Availability of Federal Funds**
- Program Income**
- Special Tests and Provisions – Key Personnel**

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

Allowable Costs/Cost Principles

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

Initial Year Written: 2010  
 Status: Partially Implemented  
  
 U.S. Department of Health and Human Services  
 U.S. Department of Defense

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

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

**CFDA Award Number      Award Year**

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

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

Corrective Action:

This finding was reissued as current year reference number: 13-168.

Reference No. 11-178

**Special Tests and Provisions - Indirect Cost Limitation**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency**

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

Initial Year Written: 2010 Status: Implemented  U.S. Department of Defense
---

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

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

Corrective Action:

Corrective action was taken.

**University of Texas Medical Branch at Galveston**

Reference No. 12-178

**Equipment and Real Property Management**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency**

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

Initial Year Written: 2011 Status: Implemented  Federal Agencies that Provide R&D Awards
---

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

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

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

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

Corrective Action:

Corrective action was taken.



Reference No. 12-179

**Reporting**

(Prior Audit Issue 10-131)

**Research and Development Cluster**

**Award years - See below**

**Award numbers - See below**

**Type of finding - Significant Deficiency and Non-Compliance**

Financial Reporting

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

Initial Year Written: 2009  
 Status: No Longer Valid

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

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

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

The following awards were affected by the issues noted above:

<u>CFDA</u>	<u>Award Number</u>	<u>Award Year</u>
12.300	N000140610300	December 19, 2005 to September 29, 2010
12.420	DAMD170110417	August 1, 2001 to August 31, 2011
81.049	DEFG0207ER64347	February 1, 2007 to December 31, 2010
93.xxx	N01AI25489	September 30, 2002 to December 31, 2010
93.110	5R40MC066340403	January 1, 2006 to January 31, 2011
93.113	5T32ES00725419S1	July 1, 2006 to June 30, 2012
93.242	5P20DA024157-04	September 30, 2007 to July 31, 2011
93.242	5U01MH083507-04	June 5, 2008 to April 30, 2013
93.279	5F30DA02031405	May 24, 2006 to November 23, 2010
93.279	5T32DA00728713	July 1, 2007 to June 30, 2012
93.359	1D11HP097570100	July 1, 2008 to June 30, 2011
93.389	5UL1RR029876-03	July 14, 2009 to March 31, 2014
93.398	5T32CA11783405	July 1, 2006 to June 30, 2011
93.399	5P50CA10563105S1	September 1, 2003 to August 31, 2010
93.701	5R1GM081685-05	March 10, 2010 to February 28, 2011
93.701	5U01AI082202-02	August 1, 2009 to July 31, 2012
93.837	5R01HL07116304	April 15, 2004 to February 28, 2011

<u>CFDA</u>	<u>Award Number</u>	<u>Award Year</u>
93.853	5R01NS04432405	April 1, 2003 to March 31, 2011
93.855	2U54AI05715606	March 1, 2009 to February 28, 2014
93.855	5R01AI031431-18	June 1, 2005 to May 31, 2011
93.855	5R01AI052428-04	March 1, 2004 to August 31, 2010
93.855	5R21AI06627302	September 1, 2008 to January 31, 2011
93.855	5U01AI07128305	September 30, 2006 to August 31, 2011
93.855	5U54AI057156-07	March 1, 2009 to February 28, 2014
93.859	5T32GM00825620	July 1, 2006 to June 30, 2011
93.865	5K12HD001269-12	September 30, 2009 to August 31, 2014
93.865	5K12HD05202305	August 29, 2005 to July 31, 2010
93.865	5P01HD03983305	September 1, 2003 to June 30, 2010
93.865	5R21NS05841702	February 1, 2008 to January 31, 2011
93.865	5T32HD00753911	May 1, 2006 to April 30, 2011
93.865	5U10HD05309704	April 15, 2006 to March 31, 2011
93.866	5R21AG023951-03	August 2, 2004 to June 30, 2010
93.867	5R01EY01421805	September 15, 2003 to August 31, 2010

Corrective Action:

This portion of the finding is no longer valid. The timeliness of report submissions is no longer tested during the Single Audit based on the U. S. Office of Management and Budget's 2012 A-133 Compliance Supplement; as a result, auditors did not conduct follow-up work on this issue.

**University of Texas Southwestern Medical Center**

Reference No. 12-186

**Equipment and Real Property Management**

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Cash Management**

**Period of Availability of Federal Funds**

**Procurement and Suspension and Debarment**

**Special Tests and Provisions- Key Personnel**

**Special Tests and Provisions- Indirect Cost Limitation**

**Special Tests and Provisions- R1- Separate Accountability for ARRA Funding**

**Special Tests and Provisions- R2- Presentation on the Schedule of Expenditures of Federal Awards and Data Collection Form**

(Prior Audit Issue 11-188)

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Type of finding – Significant Deficiency and Non-Compliance**

Equipment and Property Records

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

Initial Year Written: 2010  
Status: Partially Implemented

U.S. Department of Health  
and Human Services

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

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

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

Recommendations:

The Medical Center should establish and implement a process to ensure that it maintains complete and accurate property records.

Management Response and Corrective Action Plan 2011:

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

Management Response and Corrective Action Plan 2012:

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

*Implementation Date: August 31, 2013*

*Responsible Person: Paul Belew*

Other Compliance Requirements

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

General Controls

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 12-187

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Report Submission

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

Initial Year Written: 2011  
 Status: Implemented  
  
 National Institutes of Health

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

This issue affected the following awards:

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

Corrective Action:

This portion of the finding is no longer valid. The timeliness of report submissions is no longer tested during the Single Audit based on the U. S. Office of Management and Budget’s 2012 A-133 Compliance Supplement; as a result, auditors did not conduct follow-up work on this issue.

General Controls

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

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

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

Corrective Action:

Corrective action was taken.

# Appendix

## Objectives, Scope, and Methodology

---

### Objectives

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

### Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster of federal programs from September 1, 2011, through August 31, 2012. 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 material to the Research and Development Cluster of federal programs at each higher education institution audited. Auditors selected non-statistical samples for tests of compliance and controls for each 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, 2012. 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 may use 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 compliance area and performed analytical procedures when appropriate.

Auditors assessed the reliability of data provided by each higher education institution audited and determined that the data was sufficiently reliable for

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

Information collected and reviewed included the following:

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

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing using samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of controls to assess the sufficiency of each 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.



- 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 2012 through January 2013. 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:

- Audrey O’Neill, CIA, CGAP (Project Manager)
- Jennifer Brantley, MS, CPA (Assistant Project Manager)
- Rebecca Franklin, CFE, CGAP, CISA, CICA (Research and Development Coordinator)
- Serra Tamur, MPAff, CISA, CIA (Information Technology Coordinator)
- Kristina A. Aguilar
- Shahpar M. Ali, CPA, M/SBT
- Kelsey Arnold
- Isaac A. Barajas
- Pamela A. Bradley, CPA
- Jason Carter, MBA
- Derek J. Felderhoff, MBA
- Michael A. Gieringer, CFE
- Arby Gonzales, CFE
- Justin Griffin, CISA
- Olivia Gutierrez
- Frances Anne Hoel, CIA, CGAP

- Cynthia Holmes, CISA
- Norman G. Holz II
- Joseph Kozak, CPA, CISA
- Marlen Randy Kraemer, MBA, CISA, CGAP
- Jennifer Lehman, CIA, CFE, CGAP
- Namita Pai, CPA
- Mario Perez
- Nikhol Remedios
- Kristyn Scoggins, CGAP
- Serra Tamur MPAff, CISA, CIA
- Ellie Thedford, CGAP
- Lisa M. Thompson
- Cecilia Ann Wallace, CPA
- Israel Weingarten
- Adam Matthew Wright, CPA, CFE, CGAP, CIA
- Kristin Alexander, CIA, CFE, MBA (Quality Control Reviewer)
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- J. Scott Killingsworth, CGAP, CGFM, CIA (Quality Control Reviewer)
- Dana Musgrave, MBA (Quality Control Reviewer)
- James Timberlake, CIA (Audit Manager)

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

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

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Boards, Chancellors, and Presidents of the Following Agencies and Higher Education Institutions**

Texas A&M Agrilife Research  
Texas A&M Engineering Experiment Station  
Texas State University – San Marcos  
University of Houston  
University of North Texas  
The University of Texas at Arlington  
The University of Texas at Austin  
The University of Texas at Brownsville  
The University of Texas Health Science Center at Houston  
The University of Texas Health Science Center at San Antonio  
The University of Texas Health Science Center at Tyler  
The University of Texas M. D. Anderson Cancer Center  
The University of Texas Medical Branch at Galveston  
The University of Texas at San Antonio  
The University of Texas Southwestern Medical Center



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: [www.sao.state.tx.us](http://www.sao.state.tx.us).

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.