



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, 2010**

February 2011

Report No. 11-023



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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Research and Development cluster of federal programs in fiscal year 2010.

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 audits. Those audits test compliance with federal requirements in 14 areas, such as allowable costs, procurement, reporting, and monitoring of non-state entities when the State passes federal funds through to those entities. In addition, each program may outline special tests specific to the program that auditors are required to perform. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$85,612,909 in federal funds during fiscal year 2010 and (2) other selected federal programs.

From September 1, 2009, through August 31, 2010, the State of Texas expended \$56.9 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 and one state agency. Those entities spent \$1,054,738,433 in federal Research and Development cluster funds during fiscal year 2010.

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 (OMB) 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. All of those findings were significant deficiencies, and 18 of those findings contained non-compliance. Auditors did not identify any findings that were material weaknesses or material non-compliance (see text box for definitions of finding classifications).

Key Points

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

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

- Four higher education institutions did not notify non-state entities to which they passed Recovery Act funds about all required information when they awarded funds and/or when they disbursed funds to the non-state entities.
- One higher education institution submitted a Recovery Act quarterly report to the federal government that contained inaccurate expenditure information.

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

At six higher education institutions, auditors identified control weaknesses related to securing information technology systems code and data. Those control weaknesses affected multiple compliance areas at each of those six higher education institutions.

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

Auditors identified findings related to unallowable uses of federal funds. Specifically:

- Two higher education institutions did not always have adequate supporting documentation for their payroll expenditures or did not verify committed effort related to payroll expenditures in a timely manner. In addition, one of those

Finding Classifications

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

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

higher education institutions used federal funds to pay employees more than its federal awards allowed, and it inappropriately charged expenditures to a federal award that was not related to those expenditures.

- One higher education institution recovered more in indirect costs than its federal awards allowed.
- One higher education institution did not always periodically review and adjust the rates it charged for performing specialized services internally.

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

One agency and one higher education institution did not always adhere to state and federal procurement requirements. At those 2 entities, auditors identified 5 contracts totaling \$70,321 that the entities did not properly bid to ensure fair and open competition in their procurement processes. Additionally, two higher education institutions did not always ensure that vendors were not suspended or debarred from federal procurements prior to making purchases from those vendors.

Higher education institutions fully implemented corrective action plans for the majority of findings from prior fiscal years related to the Research and Development cluster of federal programs.

Auditors followed up on higher education institutions' corrective action plans for 26 audit findings from prior fiscal years. Higher education institutions fully implemented corrective action plans for 20 of those findings and partially implemented corrective action plans for the remaining 6 findings.

Summary of Management's Response

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

Summary of Information Technology Review

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

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, 2009, through August 31, 2010. The audit work included control and compliance tests at one agency and 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 agency and higher education institution audited. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate.

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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, 2010*

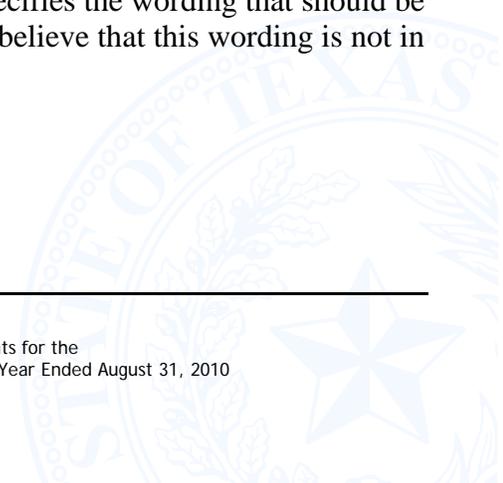
Report on Compliance with Requirements that Could Have a Direct and Material Effect on the
Research and Development Cluster and on Internal Control Over Compliance in Accordance
with U.S. Office of Management and Budget Circular A-133

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 the Research and Development Cluster for the year ended August 31, 2010. 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 A-133 Audit for the year ended August 31, 2010. 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, 2010. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.



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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items:

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Texas Engineering Experiment Station	Research and Development Cluster	Period of Availability of Federal Funds	11-125
		Procurement and Suspension and Debarment	11-126
Texas Tech University Health Sciences Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-140
		Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring
University of Houston	Research and Development Cluster Research and Development Cluster - ARRA	Activities Allowed or Unallowed Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-156
		Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring
University of Texas at Austin	Research and Development Cluster Research and Development Cluster - ARRA	Activities Allowed or Unallowed Allowable Costs/Costs Principles Cash Management Equipment and Real Property Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Reporting Special Tests and Provisions - Awards with ARRA Funding Special Tests and Provisions - Key Personnel Special Tests and Provisions - Indirect Cost Limitation	11-168
		Research and Development Cluster	Allowable Costs/Costs Principles

<u>Agency or Higher Education Institution</u>	<u>Cluster or Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
		Cash Management	11-173
		Equipment and Real Property Management	11-174
		Procurement and Suspension and Debarment	11-175
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Program Income Special Tests and Provisions - Key Personnel	11-176
		Reporting	11-177
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	11-179
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster Research and Development Cluster - ARRA	Activities Allowed or Unallowed Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Special Tests and Provisions - Awards with ARRA Funding Special Tests and Provisions - Indirect Cost Limitation	11-187
	Research and Development Cluster	Equipment and Real Property Management	11-188
	Research and Development Cluster - ARRA	Reporting	11-189
	Research and Development Cluster Research and Development Cluster - ARRA	Subrecipient Monitoring Special Tests and Provisions - R3 - Subrecipient Monitoring	11-190

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

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
Texas Engineering Experiment Station	Research and Development Cluster	Period of Availability of Federal Funds	11-125
		Procurement and Suspension and Debarment	11-126
Texas Tech University Health Sciences Center	Research and Development Cluster	Activities Allowed or Unallowed	11-140
		Allowable Costs/Costs Principles	
		Cash Management	
		Period of Availability of Federal Funds	
		Procurement and Suspension and Debarment	
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	11-141

<u>Agency or Higher Education Institution</u>	<u>Cluster or Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed	11-156
	Research and Development Cluster - ARRA	Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	11-157
University of Texas at Austin	Research and Development Cluster	Activities Allowed or Unallowed	11-168
	Research and Development Cluster - ARRA	Allowable Costs/Costs Principles Cash Management Equipment and Real Property Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Reporting Special Tests and Provisions - Awards with ARRA Funding Special Tests and Provisions - Key Personnel Special Tests and Provisions - Indirect Cost Limitation	
University of Texas at Brownsville	Research and Development Cluster	Activities Allowed or Unallowed	11-169
	Research and Development Cluster - ARRA	Allowable Costs/Costs Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Special Tests and Provisions - Awards with ARRA Funding	
University of Texas Health Science Center - Houston	Research and Development Cluster	Allowable Costs/Costs Principles	11-172
		Cash Management	11-173
		Equipment and Real Property Management	11-174
		Procurement and Suspension and Debarment	11-175

Agency or Higher Education Institution	Cluster or Program	Compliance Requirement	Finding Number
University of Texas M.D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed	11-176
		Allowable Costs/Costs Principles	
		Cash Management	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster - ARRA	Period of Availability of Federal Funds	11-177
		Program Income	
		Special Tests and Provisions - Key Personnel	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster - ARRA	Reporting	11-178
		Special Tests and Provisions - Indirect Cost Limitation	
		Special Tests and Provisions - R3 - Subrecipient Monitoring	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster	Activities Allowed or Unallowed	11-187
		Allowable Costs/Costs Principles	
		Cash Management	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster - ARRA	Period of Availability of Federal Funds	11-188
		Special Tests and Provisions - Awards with ARRA Funding	
		Special Tests and Provisions - Indirect Cost Limitation	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster	Equipment and Real Property Management	11-189
		Reporting	
		Special Tests and Provisions - R3 - Subrecipient Monitoring	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster - ARRA	Subrecipient Monitoring	11-190
		Special Tests and Provisions - R3 - Subrecipient Monitoring	
		Special Tests and Provisions - Key Personnel	
University of Texas Southwestern Medical Center -Dallas	Research and Development Cluster	Special Tests and Provisions - R3 - Subrecipient Monitoring	11-191
		Special Tests and Provisions - Key Personnel	
		Special Tests and Provisions - Key Personnel	

Schedule of Program Expenditures

The accompanying Schedule of Program Expenditures for the Research and Development Cluster (Schedule) of the State for the year ended August 31, 2010, 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, 2010*.

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

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

John Keel, CPA
State Auditor

February 18, 2011

**Schedule of Program Expenditures for the Research and Development Cluster
for the State of Texas
For the Year Ended August 31, 2010**

Schedule of Program Expenditures			
Agency or Higher Education Institution Audited	Pass-through to Non-state Entities	Direct Expenditures	Total
Texas Engineering Experiment Station			
Other Than American Recovery and Reinvestment Act	\$12,081,149	\$ 62,537,500	\$ 74,618,649
American Recovery and Reinvestment Act	0	2,979,238	2,979,238
Tech Tech University Health Sciences Center			
Other Than American Recovery and Reinvestment Act	274,813	11,074,540	11,349,353
American Recovery and Reinvestment Act	11,721	1,389,859	1,401,580
University of Houston			
Other Than American Recovery and Reinvestment Act	3,627,510	41,341,500	44,969,010
American Recovery and Reinvestment Act	79,299	6,069,750	6,149,049
The University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	23,893,281	294,864,944	318,758,225
American Recovery and Reinvestment Act	571,655	21,870,445	22,442,100
The University of Texas at Brownsville			
Other Than American Recovery and Reinvestment Act	42,518	4,864,528	4,907,046
American Recovery and Reinvestment Act	0	614,355	614,355
The University of Texas Health Science Center at Houston			
Other Than American Recovery and Reinvestment Act	13,465,525	113,125,196	126,590,721
American Recovery and Reinvestment Act	3,441,195	10,736,086	14,177,281
The University of Texas M. D. Anderson Cancer Center			
Other Than American Recovery and Reinvestment Act	11,629,637	170,169,875	181,799,512
American Recovery and Reinvestment Act	2,093,720	16,120,953	18,214,673
The University of Texas Southwestern Medical Center at Dallas			
Other Than American Recovery and Reinvestment Act	9,219,376	192,840,773	202,060,149
American Recovery and Reinvestment Act	745,541	22,961,951	23,707,492
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	\$74,233,809	\$890,818,856	\$ 965,052,665
Total Audited Research and Development American Recovery and Reinvestment Act	\$ 6,943,131	\$ 82,742,637	\$ 89,685,768
Total Audited	\$ 81,176,940	\$973,561,493	\$1,054,738,433
Note: Federal expenditures for the Research and Development cluster at state entities not included in the scope of this audit totaled \$594,906,493 for the year ended August 31, 2010. Of that amount, \$40,439,862 was American Recovery and Reinvestment Act expenditures.			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with Federal
Requirements for the Research and Development
Cluster of Federal Programs for the Fiscal Year
Ended August 31, 2010*

Summary of Auditors' Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010*.

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:

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

Dollar threshold used to distinguish between type A and type B programs: \$85,612,909

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 Fiscal Year Ended August 31, 2010*.

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). This section is organized by entity.

Texas Engineering Experiment Station

Reference No. 11-125

Period of Availability of Federal Funds**Research and Development Cluster**

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

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

Type of finding – Significant Deficiency and Non-Compliance

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).

Questioned Cost: \$ 2,168

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.

Recommendation:

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

Management Response and Corrective Action Plan:

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

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

Implementation Date: May 12, 2010

Responsible Person: Andy Hinton

Reference No. 11-126

Procurement and Suspension and Debarment

Research and Development Cluster

Award years – see below

Award numbers – see below

Type of finding – Significant Deficiency and Non-Compliance

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

Questioned Cost: \$ 40,321
U.S. Department of Energy U.S. Department of Defense National Science Foundation

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

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

The issues noted above related to the following awards:

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

Recommendation:

The Station should design and implement controls to ensure that staff enter requisitions into the financial management system prior to making procurements.

Management Response and Corrective Action Plan:

The Texas Engineering Experiment Station has a procedure in place for noncompliant purchases. All four of the transactions questioned followed the current procedures. However, to further ensure the employees' adherence to purchasing guidelines, additional procurement training will be provided to anyone making a noncompliant purchase. Failure to complete training within 30 days from assignment will result in the noncompliant expenditure being transferred to a non-sponsored source of funds. Should a second occurrence take place by the same employee, then the purchase will not be allowed on a sponsored funding source.

Implementation Date: April 1, 2011

Responsible Person: Andy Hinton

Texas Tech University Health Sciences Center

Reference No. 11-140

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

Research and Development Cluster

Award years – January 1, 2009 to December 31, 2010, September 1, 2009 to August 31, 2010, September 15, 2009 to September 14, 2010, September 1, 2009 to August 31, 2010, March 1, 2010 to February 28, 2011, September 20, 2009 to August 31, 2010, and July 1, 2008 to November 30, 2009

Award numbers – CFDA 93.395 R01CA82830, CFDA 93.701 2R01RY013610-04A1, CFDA 12.420 W81XWH-07-1-0580, CFDA 93.855 U19AI082623, CFDA 93.281 5R01MH085554-02, CFDA 93.701 1R21AA018160-01, and CFDA 93.855 R01AI079497

Type of finding –Significant Deficiency and Non-Compliance

Salary Limitation

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

Questioned Cost: \$ 3,961

National Institutes of Health
U.S. Department of Defense

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

After-the-fact Confirmation of Payroll

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

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

Additionally, for one payroll item tested, the Health Sciences Center used grant funds to pay an employee 3.6 percent more in salary than the employee certified in effort for the project. (This payroll item was also one of the salary limitation exceptions noted above.) Health Sciences Center policy states that only effort adjustments that vary by more than 5 percent require correction. The design of this policy could result in payroll charges that exceed the amount of effort an employee committed to a project.

Cost Transfers and Adjustments

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

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

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

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

Other Compliance Requirements

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

General Controls

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

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

Recommendations:

The Health Sciences Center should:

- Develop and implement a process to ensure that, for NIH awards, it does not charge salaries that exceed the salary limitation.
- Ensure that employees certify all after-the-fact confirmation activity reports in a timely manner and that those reports accurately reflect employee effort.
- Revise its effort policy to ensure that the allocation of an employee's salary and wages to federal awards does not exceed the employee's certified effort for the period.
- Ensure that all cost transfers are justified and have adequate support to comply with Health Sciences Center policy
- Limit high-profile access to the PARs database and to the DirectPay application code to the appropriate users based on their job responsibilities.

Management Response and Corrective Action Plan:

The Texas Tech University Health Sciences Center agrees with the recommendations of the State Auditor's Office. Institutional policies and procedures will be modified to implement the recommendations as presented. A new effort certification system is also being implemented to go live in April 2011 for the fiscal quarter beginning March 2011.

Implementation Date: March 2011

Responsible Person: Mike Crowder

Reference No. 11-141

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA

Award years –September 1, 2009 to August 31, 2010, October 1, 2009 to September 30, 2010, March 1, 2009 to February 28, 2011, April 6, 2010 to April 5, 2012, and August 2, 2010 to July 31, 2011

Award numbers – CFDA 93.701 R01EY013610-04A1 (ARRA), CFDA 17.258 2910XSW000 (ARRA), CFDA 93.703 1H8ACS11424-0100 (ARRA), CFDA 93.718 90RC004001 (ARRA), and CFDA 93.701 3R01AI071223 (ARRA)

Type of finding – Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds; and (3) require their subrecipients to include on

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

their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

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

General Controls

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

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

Recommendations:

The Health Sciences Center should:

- At the time of subaward, notify its subrecipients of the requirement to identify Recovery Act funds separately on their SEFAs.
- Limit high-profile access to the PARs database and to the DirectPay application code to the appropriate users based on their job responsibilities.

Management Response and Corrective Action Plan:

The Texas Tech University Health Sciences Center agrees with the recommendations of the State Auditor's Office. Institutional policies and procedures will be modified to implement the recommendations as presented. A new effort certification system is also being implemented to go live in April 2011 for the fiscal quarter beginning March 2011.

Implementation Date: March 2011

Responsible Person: Mike Crowder

University of Houston

Reference No. 11-156

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

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – September 1, 2009 to August 31, 2010, August 1, 2009 to July 31, 2010, August 1, 2009 to July 31, 2010, October 1, 2009 to September 30, 2010, and September 1, 2009 to August 31, 2010

Award numbers – CFDA 47.070 IIS-0712941, CFDA 84.305 R305A050056, CFDA 93.701 1 R01 EY018165-01A1 (ARRA), CFDA 84.359 2472, and CFDA 93.701 3R01EY013175-07S2 (ARRA)

Type of finding – Significant Deficiency and Non-Compliance

Limited Competition

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

Questioned Cost: \$ 30,000
National Science Foundation
U.S. Department of Education
National Eye Institute

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

Suspension and Debarment

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

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

affected all four procurements made with Recovery Act funds during the fiscal year for which the University was required to verify suspension and debarment status.

Other Compliance Requirements

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

General Controls

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

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

Recommendations:

The University should:

- Obtain and retain all documentation required to provide an adequate basis for contractor selection.
- Establish procedures for all departments that prepare federally funded procurements to ensure that, when the University enters into a covered transaction, the University verifies that the entity is not suspended or debarred or otherwise excluded from federal contracts.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Limited Competition

The Controller will modify the University of Houston procurement policy for all purchases over \$5,000, including purchases for grants transferred from other institutions, to require that documentation be obtained and retained that substantiates (a) basis for contractor selection; (b) justification for lack of competition when competitive bids or offers are not obtained; and (c) basis for award cost or price.

Implementation Date: March 1, 2011

Responsible Person: Mike Glisson

Suspension and Debarment

The Division of Research will implement procedures to verify that prospective subrecipients to a federal grant are not suspended, debarred, or otherwise excluded from federal contracts, regardless of the dollar amount of the subrecipient award. In addition, the Controller will modify the University of Houston procurement policy to require verification that a prospective vendor/contractor that will be paid in part with federal funds for a procurement contract that is expected to equal or exceed \$25,000 is not suspended, debarred, or otherwise excluded from federal contracts.

Implementation Date: March 1, 2011

Responsible Persons: Beverly Rymer and Mike Glisson

General Controls

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: June 20, 2010

Responsible Persons: Katina McGhee and Keith Martin

Reference No. 11-157

Special Tests and Provisions – R3 – Subrecipient Monitoring

Research and Development Cluster - ARRA

Award years – September 24, 2009 to August 31, 2010 and July 1, 2009 to June 30, 2010

Award numbers – CFDA 93.701 5 RC1 RR028465-02 (ARRA) and CFDA 47.082 MCB-0920463 (ARRA)

Type of finding – Significant Deficiency and Non-Compliance

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

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

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

General Controls

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

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

Recommendations:

The University should:

- Develop a procedure to inform subrecipients of required Recovery Act information at the time it disburses funds to the subrecipients.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

The Division of Research will institute procedures to notify subrecipients via email of the federal award number, Catalog of Federal Domestic Assistance number, and amount of American Recovery and Reinvestment Act funds disbursed at the time of disbursement to subrecipients.

Implementation Date: February 1, 2011

Responsible Person: Beverly Rymer

General controls

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: June 10, 2010

Responsible Persons: Katina McGhee and Keith Martin

University of Texas at Austin

Reference No. 11-168

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Cash Management

Equipment and Real Property Management

Period of Availability of Federal Funds

Procurement and Suspension and Debarment

Reporting

Special Tests and Provisions – Awards with ARRA Funding

Special Tests and Provisions – Key Personnel

Special Tests and Provisions – Indirect Cost Limitation

Research and Development Cluster

Research and Development Cluster – ARRA

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

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).

Questioned Cost: \$ 0
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 2010, the service center had annual operating expenses of \$606,312 (or monthly expenses of \$50,526) and a year-end fund balance of \$686,275. **After excluding amounts set aside for future capital expenses, the service center had a remaining fund balance of \$371,275, which is equivalent to over 7 months of its operating expenses.**

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

Other Compliance Requirements

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

General Controls

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

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

Recommendations:

The University should:

- Establish a process to regularly review fund balances and adjust service center rates at least biannually.
- Establish a formal change management process that prevents programmers in the Office of Accounting from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

While we review rates and working balances on a periodic basis, the University agrees the rate review was not completed in a timely manner. A final review of the proposal is near completion and service center rates and working capital balance have been deemed appropriate. Based on our review, federal awards have not been levied excessive charges and current rates will remain in effect.

We will review all service centers over the next seven months placing priority on the most material balances and/or operating volume to ensure none have excessive balances. By August 31, 2011, UT plans to have reviewed service centers comprising at least 60% of all cumulative balances for all service centers, ensured rates are appropriate and/or are adjusted to be appropriate, and that balances are in line with federal guidelines. We will also implement practices to recommend closures of service centers where volume of activity does not warrant the cost of operating the university service as a service center.

Implementation timelines are as follows:

- *Define high risk service center designation and service center closure recommendations — August 31, 2011*
- *Complete 60% of biennial reviews of service centers — August 31, 2011*
- *Complete the remaining 40% of biennial reviews of service centers — August 31, 2012*

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two year plan to enact enhanced change management controls. At present, all change requests within Office of Accounting (OA) are logged and monitored through an incident and change management tool. Only select, senior members of the OA IT team are able to deploy code to production, and the office maintains logs that allow for post-deployment review.

The Office of Accounting and Office of Student Financial Services, in coordination with IT staff from across the university, have analyzed various tools and procedures necessary to segregate duties for personnel who make programming changes from those who migrate those changes to the production environment. We are working with a software vendor and have implemented a pilot program, to be completed and evaluated by April 2011. At that time, the software will be deployed or we will institute a locally developed solution, which has been designed as a back-up process.

*Implementation Dates: Rate and service center reviews - August 2012
Change management — August 2011*

*Responsible Persons: Rate and service center reviews — Janie Kohl
Change management — Dana Cook*

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)).

Questioned Cost: \$ 0

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.

Recommendation:

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

Management Response and Corrective Action Plan:

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

- 1. Accept user custom program change requests and requests for new programs using an automated system for change management. This will be a system whereby requests are documented and assigned to programmers.*
- 2. A checklist of required steps/ tasks for software development will be completed and attached to each ticket to ensure that programmers, users and administrators have reviewed, tested and approved the system change.*
- 3. Once a new program or program change has been completed, the open ticket will be assigned to the system team who does not perform programming for review and finalization of the documentation.*
- 4. The systems team will perform the required installation (move) of the mod/ied program to the LIVE environment for production.*
- 5. The system team will close the ticket.*

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

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

Implementation Date: May 2011

Responsible Person: Gustavo Barreda

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)).

Questioned Cost: \$ 0

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.

Recommendation:

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

Management Response and Corrective Action Plan:

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

Implementation Date: January 2011

Responsible Person: Dr. Peter Davies

Reference No. 11-173

Cash Management

Research and Development Cluster

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

Recipients shall maintain advances of federal funds in interest-bearing accounts. For those entities for which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(1)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

Questioned Cost: \$ 0

U.S. Department of Defense

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

Recommendation:

The Health Science Center should develop and implement procedures to calculate and remit interest payments to the federal government when federal funds are credited to its accounts before it uses those funds.

Management Response and Corrective Action Plan:

The Health Science Center has developed and implemented procedures to calculate and remit interest to the federal government in accordance with Title 31, CFR, Section 205.

Implementation Date: November 2010

Responsible Person: Michael Tramonte

Reference No. 11-174

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

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

Questioned Cost: \$ 0

National Institutes of Health

The University of Texas Health Science Center Houston (Health Science Center) sells surplus equipment at auction, often in lots of similar equipment. In fiscal year 2010, the Health Science Center vacated a building and moved research functions from that building to another building. During this process, the Health Science Center sold equipment that would no longer be needed at auction. The Health Science Center tracks equipment sold at auction by the equipment's asset tag.

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

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

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

Recommendations:

The Health Science Center should:

- Establish a process to identify and track all assets sold in lots, including assets that no longer have their original asset tag.
- Consistently follow state property accounting requirements to mark an item as missing, including warehouse inventory, for two years prior to retiring the item.

Management Response and Corrective Action Plan:

Capital Asset Management procedures will be changed to mark assets not located as missing for two years prior to retiring the items.

Implementation Date: February 2011

Responsible Person: Michael Tramonte

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 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).

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

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

Recommendations:

The Health Science Center should:

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

Management Response and Corrective Action Plan:

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

Implementation Date: February 2011

Responsible Person: Michael Tramonte

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).

Questioned Cost: \$ 255,528
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.

<u>CFDA</u>	<u>Award Number</u>	<u>Award Year</u>
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

Other Compliance Requirements

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

General Controls

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

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

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

Recommendations:

The Cancer Center should:

- Ensure that it does not included subgrant expenditures in excess of \$25,000 in the direct cost base it uses to charge indirect costs to federal awards.
- Establish a formal change management process that prevents programmers from making Geac code changes and also migrating those changes to the production environment.
- Conduct a formal, periodic review process of user accounts at the server level.

Management Response and Corrective Action Plan:

Allowable Costs/Cost Principles

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

Implementation Date: February 2011

Responsible Person: Claudia Delgado

General Controls

AFS uses a fire-call ID to authorize movement of files to production. The department will review and, if necessary, modify procedures for use of the fire-call ID, so that segregation of duties between programming staff and production move authorization is preserved. It must be noted, however, that the frequency of changes to the production environment for the GEAC application, which will be decommissioned within two years, is minimal.

AFS will work with the DCOTS department to implement an annual access review.

Implementation Date: February 2011

Responsible Person: Debbie Luquette

Reference No. 11-177

Reporting

Research and Development Cluster

Award year – March 1, 2010 to March 31, 2013

Award number – CFDA 12.420 W81XWH-10-1-0074

Type of finding – Significant Deficiency and Non-Compliance

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

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

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

General Controls

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

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

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

Recommendation:

The Cancer Center should:

- Enhance its review procedures to ensure that it accurately reports its financial information.
- Establish a formal change management process that prevents programmers from making Geac code changes and also migrating those changes to the production environment.
- Conduct a formal, periodic review process of user accounts at the server level.

Management Response and Corrective Action Plan:

Reporting

The Cancer Center has added another level of review to ensure that it accurately reports its financial information.

Implementation Date: February 2011

Responsible Person: Claudia Delgado

General Controls

AFS uses a fire-call ID to authorize movement of files to production. The department will review and, if necessary, modify procedures for use of the fire-call ID, so that segregation of duties between programming staff and production move authorization is preserved. It must be noted, however, that the frequency of changes to the production environment for the GEAC application, which will be decommissioned within two years, is minimal.

AFS will work with the DCOTS department to implement an annual access review.

Implementation Date: February 2011

Responsible Person: Debbie Luquette

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).

Questioned Cost: \$ 0
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.

Recommendation:

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

Management Response and Corrective Action Plan:

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

Implementation Date: February 2011

Responsible Person: Claudia Delgado

Reference No. 11-179

Special Tests and Provisions – R3 - Subrecipient Monitoring

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

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

Questioned Cost: \$ 0

U.S. Department of Health and Human Services

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

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

Recommendations:

The Cancer Center should provide appropriate documentation at the time of the disbursement of funds, including the federal award number, CFDA number, and the amount of Recovery Act funds.

Management Response and Corrective Action Plan:

The Cancer Center will provide appropriate documentation at the time of the disbursement of funds, including the federal award number, CFDA number, and the amount of Recovery Act funds to the subrecipient.

Implementation Date: February 2011

Responsible Person: Claudia Delgado

University of Texas Southwestern Medical Center at Dallas

Reference No. 11-187

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Cash Management

Period of Availability of Federal Funds

Special Tests and Provisions – Awards with ARRA Funding

Special Tests and Provisions – Indirect Cost Limitation

Research and Development Cluster

Research and Development Cluster – ARRA

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

Cash Management

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

Questioned Cost: \$ 0

U.S. Department of Defense

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

Other Compliance Requirements

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

General Controls

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

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

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

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

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

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

Recommendations:

The Medical Center should:

- Develop and implement procedures to calculate and remit interest payments to the federal government when federal funds are credited to its accounts before it uses those funds.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Cash Management

a) *The Medical Center will use its existing procedures and processes to calculate and pay interest to the federal government on awards in which the Medical Center has received funding in advance of expenditures and the sponsor requires such interest.*

Implementation Status: Implemented

Implementation Date: January 2011

Responsible Person: Don Mele

General Controls

b) *An OAS user access audit is in progress. A list of OAS users will be submitted to all “reports to” managers listed in the University’s legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the “reports to” manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.*

Implementation Status: In-progress

Implementation Date: June 2011

Responsible Person: Andrea Marshall

c) *The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer*

essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Status: Not Implemented

Implementation Date: Not Applicable

Responsible Person: Andrea Marshall

Reference No. 11-188

Equipment and Real Property Management

Research and Development Cluster

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency and Non-Compliance

Equipment Inventory Records

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)).

Questioned Cost: \$ 0

U.S. Department of Health and
Human Services

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

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

The Medical Center has a process to track serial numbers as it enters information about equipment into its inventory management system; however, it did not always enter the serial numbers into its inventory management system. Not

maintaining complete and accurate inventory records could result in non-traceable missing, lost, or stolen equipment.

General Controls

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

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

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

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

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

Recommendations:

The Medical Center should:

- Establish a process to ensure that it maintains complete and accurate inventory records for equipment.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

We understand the state auditors' interpretation on this issue. We would like to obtain additional information from our federal awarding agency to ensure that our inventory records are in compliance with all federal rules and regulations with an implementation date of August 31, 2011.

Implementation Date: August 31, 2011

Responsible Person: Paul Belew

General Controls

c) An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Status: In-progress

Implementation Date: June 2011

Responsible Person: Andrea Marshall

d) The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Status: Not Implemented

Implementation Date: Not Applicable

Responsible Person: Andrea Marshall

Reference No. 11-189

Reporting

Research and Development Cluster - ARRA

Award year – September 15, 2009 to September 14, 2010

Award number – CFDA 93.701 3R01NS049517-05S1 (ARRA)

Type of finding – Significant Deficiency and Non-Compliance

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

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

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not always accurately report the amount of Recovery Act funds expended in the quarterly reports required by Section 1512 of the Recovery Act. For 1 (3 percent) of 35 Section 1512 reports tested for the quarter ended June 30, 2010, the Medical

Center inaccurately reported the total amount expended for the award. The Medical Center reported the total amount expended was \$221,268; however, the Medical Center's accounting records show the total amount expended was \$242,201, a difference of \$20,933.

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

General Controls

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

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

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

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

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

Recommendations:

The Medical Center should:

- Design and implement controls to ensure that it prepares accurate and complete quarterly financial reports for the Recovery Act and that it enters correct information into the federal reporting Web site.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Reporting

a) The Medical Center will establish review procedures to ensure that the reported information is accurate. The Medical Center is currently receiving reports from the Comptroller's Office after the Section .1512 reports are submitted. These reports will be reviewed by the supervisor to confirm the accuracy of the submitted information.

Implementation Status: In-progress

Implementation Date: April 2011

Responsible Person: Don Mele

General Controls

b) An OAS user access audit is in progress. A list of OAS users will be submitted to all “reports to” managers listed in the University’s legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the “reports to” manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Status: In-progress

Implementation Date: June 2011

Responsible Person: Andrea Marshall

c) The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee’s access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Status: Not Implemented

Implementation Date: Not Applicable

Responsible Person: Andrea Marshall

Reference No. 11-190

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

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

Pre-award Monitoring

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

Questioned Cost: \$ 0 Federal Agencies that Provide R&D Awards
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The Medical Center did not properly identify all required federal award information and compliance requirements to its subrecipients at the time of award. Specifically, for 45 (100 percent) of 45 subrecipient awards tested, the Medical Center's subrecipient award agreement did not contain the Catalog of Federal Domestic Assistance (CFDA) title. The subrecipient agreement and contract template the Medical Center used did not include language that states the CFDA title. Therefore, this issue applies to all of the Medical Center's subrecipient awards. Additionally, 2 (4 percent) of 45 subrecipient award agreements tested did not contain the CFDA number.

Subrecipients of Recovery Act Funding

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

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

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

- **Did not, at the time of award, notify the subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs.**
- **Did not, at the time of award, ensure that subrecipients were registered with the CCR.**
- **Did not separately identify to each subrecipient, and document at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.**

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

time of disbursement of Recovery Act funds. As a result, these issues affect all of the Medical Center's Recovery Act subrecipient awards.

Recommendations:

The Medical Center should:

- Ensure that subrecipient award documentation templates contain CFDA title and number.
- Develop and implement a process to, at the time of award, notify its subrecipients of the requirement to provide appropriate identification of Recovery Act funds in their SEFAs.
- Develop and implement a process to, at the time of award, verify that all subrecipients that receive Recovery Act funding are registered with the CCR.
- Develop and implement a process to separately identify to each subrecipient, and document at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.

Management Response and Corrective Action Plan:

Pre-award Monitoring

a) *The Medical Center's Research Grants and Contracts Office has implemented procedures to include in its contracts to subrecipients the CFDA Number and Title, as required by OMB Circular A-133, Subpart D 400(d) (1).*

Implementation Status: In-progress

Implementation Date: February 2011

Responsible Person: Cheryl Anderson

Subrecipients of Recovery Act Funding

b) *The Research Grants and Contracts Office has implemented procedures to include in its contracts to subrecipients of ARRA funding, a notification of the requirement to include appropriate identification of Recovery Act funds in their SEFA.*

Implementation Status: In-progress

Implementation Date: February 2011

Responsible Person: Cheryl Anderson

c) *The Research Grants and Contracts Office has implemented procedures to ensure that the subrecipients were registered with the CCR, as required by 2 CFR Part 176.50 and 176.210.*

Implementation Status: In-progress

Implementation Date: February 2011

Responsible Person: Cheryl Anderson

d) *The Medical Center's Office of Post-Award Administration has implemented a procedure to identify, by letter, to each subrecipient of ARRA funds at the time of disbursement of funds, the federal award number, the CFDA number, and the amount of Recovery Act funds disbursed, as required by 2 CFR Part 176.210(c).*

Implementation Status: Implemented

Implementation Date: January 2011

Responsible Person: Don Mele

Reference No. 11-191

Special Tests and Provisions – Key Personnel

Research and Development Cluster

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

Award number – CFDA 93.397 5 P50 CA091846 09

Type of finding – Significant Deficiency

Key Personnel Effort

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

Questioned Cost: \$ 0
National Institutes of Health

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

General Controls

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

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

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

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

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

Recommendations:

The Medical Center should:

- Strengthen its monitoring of key personnel effort commitment and certification to ensure compliance with the effort requirements of federal awards.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Key Personnel Effort

a) The Medical Center agrees that a sampled effort report was not completed correctly. Additional information has been provided to the auditors to confirm that the effort was met. The department administrator has been contacted, the issue has been discussed, and the effort report has been reviewed and corrected by the investigator. The Medical Center has established compliance monitoring procedures for effort reporting and monitoring is ongoing. These procedures will be reviewed and adjustments to the process will be made accordingly. Education and training provided to investigators and to the department pre-approvers and administrators emphasizing the review of committed effort and the reporting of cost sharing is on ongoing issue and will continue.

Implementation Status: In-progress

Implementation Date: March 2011

Responsible Person: Diane Sheppard

General Controls

b) An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Status: In-progress

Implementation Date: June 2011

Responsible Person: Andrea Marshall

c) The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Status: Not Implemented

Implementation Date: Not Applicable

Responsible Person: Andrea Marshall

Summary Schedule of Prior Year Audit Findings

Federal regulations (Office of Management and Budget Circular 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 2009 Schedule of Findings and Questioned Costs.
- Each finding in the 2009 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, 2009) has been prepared to address these responsibilities.

Tarleton State University

Reference No. 10-52

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

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

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)).

Initial Year Written: 2009 Status: Partially Implemented U.S Department of Agriculture U.S. Department of Interior

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

Tarleton State University (University), which is a member of the Texas A&M University System, did not complete after-the-fact confirmations of effort certifications for 2 (25 percent) of 8 employees tested. Monthly salary charges to the federal program for those two employees totaled \$10,166. Two departments at the University, the Center for Agribusiness Excellence (CAE) and Common Information Systems (CIMS), paid these two employees from federal grants when the employees did not commit 100 percent effort to projects funded by the federal grants (i.e., the employees were not “dedicated personnel”). The University asserts that most employees who contribute effort to these projects are dedicated personnel, and therefore, it did not complete after-the-fact confirmations. Failure to certify effort can result in required adjustments to accounts funded by federal research and development grants going undetected. During fiscal year 2009, the University charged \$764,087 in payroll-related costs to the CAE and CIMS programs.

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

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

Recommendations:

The University should:

- Develop and implement a centralized process to require employees who do not contribute 100 percent of their effort to a single federal program but who are paid from federal research and development grants to complete effort certification reports.
- Develop and implement a policy that references appropriate OMB circulars and includes information on the types of expenditures allowed and unallowed, funding periods, and descriptions of direct and indirect costs.

Management Response and Corrective Action Plan 2009:

As was reported in the findings, there are three University departments that manage federally funded research and development programs: CAE, CIMS, and TIAER. TIAER administers a uniform process for after-the-fact time and effort reporting. CAE and CIMS will refine its processes for after-the-fact confirmation of time and effort reporting for its relevant employees.

TIAER will continue its process. Since the audit, CAE and CIMS have been communicating with Business Services toward a better process of documenting their time and effort for any employee that is not being paid 100% from a single grant, which will be no less frequently than every six months in accordance with Title 2, Code of Federal Regulations, Section 220(J)(10). These documents will be forwarded to the Business Office for filing purposes. Tarleton State University will meet with the three departments to determine whether a more consistent, uniform process can be utilized either within TimeTraQ or another available technology to be able to more centrally keep track of time and effort reporting.

As for the second recommendation, Tarleton State University will review existing policies and regulations through the A&M System and will develop a Standard Administrative Procedure that compliments existing

A&M System policies and regulations. It will contain reference to the relevant OMB circulars, and will be updated as necessary.

Management Response and Corrective Action Plan 2010:

CAE and CIMS have refined its processes for after-the-fact confirmation of time and effort reporting for its relevant employees. Testing of time and effort during the 2010 review indicated 1 out of the 15 confirmations tested was incorrectly certified at more than 100% effort. The certification error has been communicated to the appropriate department. Upon receipt of the confirmations in Business Services, they will be reviewed, with any issues communicated to the departments, prior to being placed in the permanent files.

TIAER will continue its process. Since the audit, CAE and CIMS have been communicating with Business Services toward a better process of documenting their time and effort for any employee that is not being paid 100% from a single grant, which will be no less frequently than every six months in accordance with Title 2, Code of Federal Regulations, Section 220(J)(10). These documents are forwarded to the Business Office for filing purposes. Tarleton State University is in the process of reviewing an electronic system provided by the A&M system offices for reporting time and effort certification with an expected implementation date of September 1, 2011.

As for the second recommendation, Tarleton State University has reviewed existing policies and regulations through the A&M System and has revised its procedures to include reference to OMB Circulars.

Implementation Date: June 10, 2010

Responsible Person: Ms. DeAnna Powell

Reference No. 10-53

Cash Management

Research and Development Cluster

Award year - March 1, 2009 to February 28, 2010

Award numbers - CFDA 10.450 09IE08700026 and CFDA 15.000 08IE08710054

Type of finding - Significant Deficiency and Non-Compliance

A federal program agency must limit a funds transfer to a state to the minimum amount needed by the state and must time the disbursement to be in accordance with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with Office of Management and Budget (OMB) Circular A-102 (Title 31, Code of Federal Regulations, Section 205.33).

Initial Year Written: 2009
Status: Implemented
U.S Department of Agriculture
U.S. Department of Interior

Tarleton State University (University) submits invoices to funding agencies for its federal research and development contracts. Although the University has documented invoicing procedures, those procedures do not provide detailed guidance for how staff should prepare invoices. In addition, those procedures do not include a requirement that an individual other than the invoice preparer review the invoices for accuracy.

Additionally, the University does not reconcile all invoice activity to its accounting system (FAMIS) as required by its invoicing procedures.

The University's Center for Agribusiness Excellence (CAE) administers a fixed-price, cost-reimbursement contract through which CAE invoices sponsors in equal, fixed amounts throughout the award year for the components for data warehouse and data mining. However, CAE is supposed to invoice for travel, equipment, software, supplies, and materials on a reimbursement basis. Five (38 percent) of 13 CAE invoices tested were for travel costs that were for an amount that differed from the amount the University actually paid for the travel. Specifically, for these five invoices, the amount invoiced for travel expenditures was \$330 more than the actual expenditures. It is the University's practice to request reimbursement for travel costs based on the maximum federal allowable rate, rather than based on actual expenditure amounts.

Additionally, the University does not maintain evidence that individuals other than the invoice preparers review invoices for either the CAE or Common Information Systems (CIMS) research programs. For all 13 invoices tested for the CAE and for all 13 invoices tested for the CIMS program, auditors could not verify that an individual other than the invoice preparer reviewed the invoices prior to processing. Without a documented review, the federal sponsors may receive invoices for unallowable costs or incorrectly calculated costs.

There are three departments that manage federally funded research and development programs at the University. These include the CAE and CIMS programs, as well as the Texas Institute for Applied Environmental Research (TIAER) program. Operations related to Grant and Contracts administration for the funds awarded to each program are performed separately in each of the three departments. This includes invoicing federal sponsors. In addition to the processes being decentralized, since they are performed separately in each program's department, they are also not performed consistently within the departments. The CAE and CIMS departments do not perform reviews of invoicing, and CAE does not prepare invoices based on actual costs. There is a review of invoices for TIAER and they are based on actual costs.

Corrective Action:

Corrective action was taken.

Reference No. 10-54

Procurement and Suspension and Debarment

Research and Development Cluster

Award year - March 1, 2009 to February 28, 2010

Award number - CFDA 10.450 091E08700026

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 non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

Initial Year Written: 2009
Status: Partially Implemented
U.S Department of Agriculture

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

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

Recommendation:

The University should perform suspension and debarment verifications for all covered transactions (procurements of \$25,000 or greater and all subawards) and maintain evidence of the verification.

Management Response and Corrective Action Plan 2009:

Universities and agencies within The Texas A&M University System have been provided an opportunity to utilize a vendor software solution that allows users to run export control related checks on people (e.g., employees, students, and visitors), vendor companies, and the subject matter of research projects. Tarleton had a trial use of this software, but opted not to purchase the software solution this fiscal year. Instead, the Purchasing Department utilizes the Excluded Parties List System to check the suspension and debarment status of vendors prior to executing a purchase order. The Purchasing Department has changed its practice of solely documenting the file that the vendor is not suspended or debarred to one of printing the certification and attaching it to the paperwork.

Management Response and Corrective Action Plan 2010:

For purchases of \$25,000.00 or more involving Federal Funds. Purchasing staff verify the status of the primary vendor's standing through the EPLS and retain a printed copy of the suspension and debarment status in the procurement file. Any subcontractors involved in the procurement are verified through the EPLS and a printed copy of the suspension and debarment status retained in the procurement file regardless of the dollar amount.

Implementation Date: January 2010

Responsible Person: Ms. Beth Chandler

Texas A&M University - Kingsville

Reference No. 10-58

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

Research and Development Cluster - ARRA

Non-Major Programs - TRIO Cluster

Award years - June 4, 2009 to September 30, 2010, and October 1, 2004 to September 30, 2009

Award numbers - CFDA 93.701 3P40RR018300-07S1, and CFDA 84.217A P217A040040

Type of finding - Significant Deficiency and Non-Compliance

Certification of Effort

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

Initial Year Written: 2009
Status: Implemented

National Institutes of Health
U.S Department of Education

Texas A&M University - Kingsville (University) follows the Texas A&M University System time and effort certification policy, which requires, at a minimum, that time and effort certifications be completed on a semi-annual basis, but it is recommended that the certifications be processed on a semester basis. In addition, the policy states that “once the reports are made available in the system, the individuals have a maximum of 45 days to sign or submit their certifications in the system.” The University did not complete an after-the-fact effort certification for 1 (3 percent) of 32 payroll transactions tested until 95 days after the pay period ending August 31, 2009. The effort certification was signed on December 4, 2009, after auditors requested evidence of the certification. The effort certification, which involved effort paid from American Recovery and Reinvestment Act (ARRA) funds, was not completed in a timely manner because the certification report was not programmed to include the new ARRA accounts. Total salaries and wages affected by the programming issue were \$16,385. Delays in certifying effort can result in adjustments to accounts funded by federal research and development grants not being made in a timely manner.

Direct Costs

Office of Management and Budget (OMB) Circular A-21, Sections C.2 and C.3 establish principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. According to that circular, for costs to be allowable they must (a) be reasonable; (b) be allocable to sponsored agreements under the principles and methods in the circular; (c) be given consistent treatment through application of the generally accepted accounting principles and methods in the circular; and (d) conform to any limitations or exclusions set forth in the principles or in the sponsored agreement regarding the types or amounts of cost items.

One (2 percent) of 50 charges to federal awards tested at the University was unallowable. The University incorrectly charged \$915 in travel costs for a summer study abroad program to the TRIO Cluster - Ronald E. McNair Scholars Program for fiscal years 2008-2009. Although provisions in the grant agreement allowed certain travel costs, they did not allow foreign travel costs. As a result, the University spent federal award funds for costs that were not allowable under provisions of the grant agreement.

Corrective Action:

Corrective action was taken.

Texas Southern University

Reference No. 09-64

Allowable Costs/Cost Principles

Research and Development Cluster

Award years- Multiple

Award numbers - All Grants with Effort Reported; CFDA 43.000, NCC 9-165; CFDA 20.701, DTRS99-G-0006/47300-00041, S080034

Type of finding - Significant Deficiency and Non-Compliance

Indirect Costs

Indirect 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) (OMB Circular A-21, Cost Principles for Educational Institutions, Section G.2).

Initial Year Written: 2008
Status: Implemented

Federal Agencies that Provide
R&D Grants

The University used an incorrect cost basis when calculating the indirect cost of a subgrant on 1 (2 percent) of 50 indirect cost charges tested. The University charged indirect costs on direct costs of a subgrant exceeding the first \$25,000 of that subgrant. The University's policy includes a reconciliation of indirect costs at the end of the award period; however, this would have resulted in the University holding funds for an extended period of time. After audit testing concluded, the University reconciled the indirect cost charges and returned the incorrectly charged funds.

Internal Service Charges

Charges made from internal service, central service, pension, or similar activities or funds must follow the applicable cost principles provided in OMB Circular A-21. According to OMB Circular A-21, 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 does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes (OMB Circular A-21, Cost Principles for Educational Institutions, Section J.47).

Four (29 percent) of fourteen University print service internal service charges were not processed in accordance with OMB Circular A-21. Specifically, the controls associated with determining the charges for print services were not consistent with the schedule of rates for the services. Two of the charges did not contain sufficient information regarding the charge to determine whether the cost was handled consistently (one of these charges was reversed by the University when documentation could not be located, and the University subsequently provided sufficient proof of the service to justify the costs for the other charge). The other two charges were charged less than the listed price for the services described in the documentation.

Corrective Action:

Corrective action was taken.

Texas State University – San Marcos

Reference No. 10-75

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

Research and Development Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

Direct Costs

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

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

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

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

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

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

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

The issues discussed above affected the following awards:

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

Indirect Costs

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

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

- For two of these indirect cost rate items, the University initially undercharged the amount of indirect costs allowable per the indirect cost rate agreement. This occurred because project budgets were amended when additional federal funding was received; however, the indirect cost budget was not amended in the system the University uses to calculate indirect costs. As a result, the system ceased to apply the approved indirect cost rate once the original budget was exceeded. The University corrected this in a subsequent period by processing manual journal vouchers to recover the costs.
- For one of these indirect cost rate items, the University exceeded the approved indirect cost rate. During a two-month period, the University did not use its system to calculate the indirect costs associated with the grant and instead processed manual journal vouchers to recover the costs. When automated processing of the indirect cost resumed, the system did not recognize the amounts previously recovered by processing journal vouchers. As a result, the rate was applied to the same direct cost base twice for a two-month period. Indirect costs recovered exceeded the allowable amount by \$1,633.

The issues discussed above affected the following awards:

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

Time and Effort Certification

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

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

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

The issues discussed above affected the following awards:

<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:

- Develop and implement procedures to ensure that employees who charge costs, particularly personal cellular service, to a sponsored agreement demonstrate that those costs are allocable to the project during the time period in which the costs are charged.
- Follow its published policies and procedures for contracts and grant administration and ensure that individuals who sign contracts have the appropriate authority to do so.
- Develop and implement procedures to ensure that it trains personnel on account setup procedures for grants and awards and that it charges indirect costs accurately and consistently to sponsored agreements.
- 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 will draft and put in place policy and associated procedures to ensure that cellular costs (and certain other services) charged to sponsored programs are charged on a proportional basis to the amount of certified effort on a sponsored program.

Management concurs. The University has begun to gather signatures from all parties relating to delegated signature authority. The University expects to be in full compliance by May 31, 2010.

Management Concur. The University will draft and put in place procedures to ensure that sponsored programs are charged indirect costs accurately and consistently.

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.

Implementation Date: Implemented

Responsible Person: W. Scott Erwin

Reference No. 10-76

Cash Management

Research and Development Cluster

Award years - June 20, 2008 to December 31, 2009 and October 1, 2008 to September 30, 2010

Award numbers - CFDA 12.300 N000174-08-1-1107 and CFDA 84.002 94100037110037

Type of finding - Significant Deficiency

Title 2, Code of Federal Regulations (CFR), Sections 215 and 220, require that non-federal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Specifically, institutions shall ensure that no one person has complete control over all aspects of a financial transaction (Title 2, CFR, Section 220(C)). In addition, Title 2, CFR, Section 215.22(b), requires federal award recipients to maintain procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient.

Initial Year Written: 2009
 Status: Implemented

 U.S. Department of Defense
 U.S. Department of Education

Texas State University’s - San Marcos (University) practice is to request federal funds only after it incurs expenses, thereby minimizing the time elapsing between transfer and disbursement. However, the University does not perform a consistent supervisory review of all types of requests for federal funds.

The University runs a report detailing federal award expenses and requests federal funds based on the amount of expenses it has incurred. The University reviews and approves both the report and the funds request to ensure amounts on those documents match amounts on drawdowns of federal funds and invoices the University has submitted to the awarding agency by mail. However, the University does not require review and approval for invoices submitted to the awarding agency electronically. Four (10 percent) of 40 federal funds requests tested were invoices submitted electronically and, therefore, were not reviewed and approved. The lack of supervisory review and approval for electronic invoices increases the risk of errors during the funds request process. However, auditors examined the four electronic invoices and did not identify any errors.

Corrective Action:

Corrective action was taken.

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.

Initial Year Written: 2009
 Status: Partially Implemented

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

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

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

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

The issues noted above are related to the following awards:

<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

Recommendations:

The University should:

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

Management Response and Corrective Action Plan 2009:

Recommendations:

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

University Management is in agreement with the recommendation.

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

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

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

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

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

Recommendation:

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

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

Management Response and Corrective Action Plan 2010:

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

Implementation Date: Implemented

Responsible Person: Jacque Allbright

Texas Tech University

Reference No. 08-67

Procurement and Suspension and Debarment

Research and Development Cluster

Award years - July 27, 2006 to December 31, 2007, September 30, 2004 to June 30, 2007, August 1, 2006 to

July 31, 2009, September 20, 2005 to March 6, 2009, and September 1, 2006 to August 31, 2008

Award numbers - CDFA 12.431 W911SR06-C00, CDFA 11.617 C70NANB3H5003, CFDA 47.049 CHE-0615321,

CDFA 12.000 W9113M-05C-0, and CDFA 10.200 06-38889-035

Type of finding - Non-Compliance

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed \$25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with the State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45, Code of Federal Regulations, Part 76, Government-wide Debarment and Suspension).

Initial Year Written: 2007

Status: Implemented

U.S. Department of
Commerce

National Science Foundation

U.S. Department of Agriculture

U.S. Department of Defense

Texas Tech University's (University) procurement process requires that, for transactions with amounts greater than or equal to \$25,000, the buyer must check the EPLS Web site to verify that the vendor has not been suspended or debarred.

For 5 of 10 (50 percent) procurement files tested, the University did not retain evidence that it performed the required review of the EPLS Web site at the time of the purchase. Auditors reviewed the EPLS Web site and determined that these five vendors were not currently suspended or debarred.

Corrective Action:

Corrective action was taken.

University of North Texas Health Science Center at Fort Worth

Reference No. 10-106

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

Research and Development Cluster

Award year - March 20, 2009 to March 19, 2010

Award number - CFDA 12.431 W911NF-09-1-0086

Type of finding - Significant Deficiency and Non-Compliance

Allowable 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, Section 220(C)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense

The University of North Texas Health Science Center at Fort Worth's (Health Science Center) policy states that principal investigators are required to exercise oversight of the financial transactions and financial status of each grant and contract sufficient to ensure that charges are (1) reasonable and necessary; (2) allowable under the terms and conditions of the award; (3) properly allocated to and among multiple awards and funding sources; and (4) limited to the funds awarded for the project.

One (2 percent) of 54 expenditures tested at the Health Science Center was unallowable under the grant agreement. An administrative coding error caused the Health Science Center to charge \$1,006 for the care of laboratory pigs to the incorrect grant. The grant agreement specifically prohibited the use of grant funds for laboratory animals. The Health Science Center had received a waiver to use grant funds on goats, but that waiver did not extend to pigs. Although the principal investigator assigned to the grant reviewed and approved the expenditure, the review and approval did not identify that the expenditure was not associated with the grant to which it was charged. After auditors identified the unallowable cost, the Health Science Center corrected the error by reassigning the cost to the appropriate grant.

Corrective Action:

Corrective action was taken.

Reference No. 10-107

Procurement and Suspension and Debarment

Research and Development Cluster

Award years - May 10, 2008 to April 30, 2013

Award number - CFDA 93.837 5R25HL007786-17

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

Initial Year Written: 2009
Status: Implemented

National Institutes of Health

accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210 and 180.220).

To ensure compliance with federal suspension and debarment requirements, the University of North Texas Health Science Center at Fort Worth (Health Science Center) has incorporated a federal procurement, suspension, and debarment certification clause into its invitation for bid document. Vendors are required to sign this document for purchases of \$25,000 or more, regardless of whether the procurement is proprietary or competitively bid. The Health Science Center then maintains the signed invitation for bid document in the contract file.

The Health Science Center did not consistently maintain documentation that supported its suspension and debarment determinations. For 1 (20 percent) of 5 covered procurement transactions tested, the Health Science Center did not retain a signed invitation for bid in the contract file. As a result, auditors could not confirm that the Health Science Center verified that the vendor was not suspended or debarred at the time of the procurement. Therefore, the Health Science Center did not comply with federal requirements or its internal policy.

Auditors reviewed the EPLS Web site for the vendor for which the Health Science Center did not have a suspension and debarment certification and determined that the vendor was not suspended or debarred.

Corrective Action:

Corrective action was taken.

University of Texas at Austin

Reference No. 10-117

Cash Management

Activities Allowed or Unallowed

Allowable Costs/Cost Principles

Period of Availability of Federal Funds

Procurement and Suspension and Debarment

Research and Development Cluster

Award years – June 15, 2007 to August 31, 2009, December 1, 2008 to November 30, 2009, September 18, 2008 to November 30, 2008, November 15, 2008 to November 14, 2009, September 15, 2008 to September 14, 2009, May 15, 2005 to October 14, 2009, June 1, 2007 to February 28, 2010, and June 1, 2007 to November 30, 2009.

Award numbers - CFDA 12.800 FA9550-07-1-0502, CFDA 12.800 FA9550-08-1-0453, CFDA 12.800 FA9550-08-1-0471, CFDA 12.800 FA9550-08-1-0394, CFDA 12.800 FA9550-08-1-0463, CFDA 12.800 FA9550-05-1-0341, CFDA 12.431 W911NF-07-1-0330, and CFDA 12.800, FA9550-07-1-0480

Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented
U.S. Department of Defense

The University of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming changes and migrating 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 federal research and development grants.

Cash Management

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

The University of Texas at Austin (University) receives scheduled payments on grants funded by the U.S. Department of Defense. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds.

Auditors reviewed 13 awards for which the University did not draw down funds on a reimbursement basis because of the funding technique required by the federal agency. For eight of these awards, the contracts or grants did not exempt the University from calculating and remitting interest to the federal government. All eight of these awards were funded by scheduled quarterly payments. However, the University did not

calculate or remit interest on funds received in advance of expenditures for these eight awards. University management asserted that the University maintains an overall negative cash position for federally funded sponsored projects; therefore, the University does not calculate and remit interest. However, the University did not provide evidence to enable auditors to verify University management's assertion or to calculate questioned cost.

Allowable Costs/Cost Principles, Period of Availability of Federal Funds, and Procurement and Suspension and Debarment

Although the general control weaknesses described above apply to activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, and procurement and suspension and debarment, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-118

Equipment and Real Property Management

(Prior Audit Issues - 09-94 and 08-79)

Research and Development Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

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 of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming changes and migrating 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 federal research and development grants.

Initial Year Written: 2007
Status: Implemented

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

Equipment and Real Property Management

A recipient's property management standards for equipment acquired with federal funds and federally owned equipment must require that equipment records be maintained accurately and include the location and condition of the equipment. Additionally, equipment owned by the federal government must be identified to indicate federal ownership (Office of Management and Budget Circular A-110, Subpart C, 34.f).

The University of Texas at Austin (University) has a policy that requires equipment with a unit cost of \$5,000 or more be assigned to a departmental inventory. In addition, the Office of the Comptroller of Public Accounts (Comptroller’s Office) defines controlled items as items with a unit cost of \$500 to \$4,999.99. The Comptroller’s Office also requires that controlled item be assigned to a departmental inventory. The University’s policy states that its Inventory Services Department or self-tagging department will affix a numbered property control plate to the property (or assign an inventory number) and enter appropriate data on the University’s computerized inventory system (Handbook of Business Procedures, Section 16.2.A). Auditors compared the University’s inventory records with physical equipment and noted discrepancies for 13 (33 percent) of 40 items tested. Specifically:

- For 12 items, the University tagged the equipment with a different inventory number than was shown in its inventory records. As a result, the inventory records did not match the physical assets inventory number the University assigned to these items. The University assigned temporary inventory numbers to these 12 equipment items during its year-end inventory process. The University subsequently assigned new inventory numbers to the equipment, but it had not yet updated its inventory records to reflect the new numbers. According to the University, as a result of year-end processing there is a period when there will always be potential for a discrepancy between its inventory records and physical tags because during fiscal year closeout (September and October) the system that maintains the inventory records is not available to update the tag numbers in the inventory record. The University has updated the inventory records for 11 of the items discussed above.
- For one item, the University had not assigned a permanent inventory number because its Asset Management unit was not notified that existing equipment had been replaced by the vendor. As a result, the inventory records did not match the physical asset serial number or the inventory number the University assigned to this item.

Discrepancies between inventory records and the physical equipment items increase the risk that equipment accountability may be compromised.

The following awards were affected by the conditions stated above:

<u>CFDA</u>	<u>Award Number</u>	<u>Award Years</u>
12.000	UTA09-000263	January 16, 2009 to December 9, 2009
12.630	HDTRA1-07-1-0032	July 10, 2007 to August 31, 2009
47.000	UNC-CH #5-37497	November 11, 1999 to October, 31, 2009
47.041	CBET-0708779,AMD 002	September 1, 2007 to August 31 2011
47.074	DEB-0618347, AMD 001	September 15, 2006 to August 31, 2009
93.286	5 R01 EB008821-01,02	June 1, 2008 to March 31, 2012
81.000	DE-AP26-06NT05742	September 30, 2006 to December 31, 2008
81.049	DE-FG02-02ER15362, AMD A005	September 1, 2002 to November 30, 2011
47.049	CHE-0718320	September 1, 2007 to August 31, 2010
47.071	OMSA-2007-SSL-UTA AMD 11	October 1, 2007 to September 30, 2008
12.000	W15QKN-08-D-0426, DO 0002	July 1, 2008 to August 31,2009
12.300	N00014-08-1-0452	June 19 2008 to December 31, 2009
93.242	5 R01 MH041770-19A1,20,22,23	December 1, 2005 to November 30, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-119

Matching, Level of Effort, Earmarking
 (Prior Audit Issues - 09-95, 08-80, 07-69, and 06-63)

Research and Development Cluster
Award years - Multiple
Award numbers - All Grants with Matching Requirements
Type of finding - Significant Deficiency

Non-federal entities may be required to share in the cost of research. The specific program regulations, general agency award guidance, or individual federal award will specify applicable matching requirements, including the minimum amount or percentage of contributions or matching funds provided by the institution (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 5, Section G). The matching contributions must also comply with the requirements of OMB Circular A-110, Section .23, including the allowable cost principles of OMB Circular A-21. These requirements include that matching contributions must be from allowable sources, must value in-kind contributions according the principles of OMB Circular A-21 and the terms of the award, and must be composed of allowable costs.

Initial Year Written:	2005
Status:	Implemented
Federal Agencies that Provide R&D Grants	

The University of Texas at Austin (University) does not have an adequate system for monitoring whether it meets required matching contributions. The University’s system for tracking its matching contributions is decentralized, and each department is responsible for maintaining its own documentation of contributions. The University’s information on matching also does not identify which grants were federal research and development grants. The lack of centralized controls over matching requirements increases the risk that the University will not consistently meet matching requirements.

Despite this control deficiency, the University was able to provide sufficient evidence showing that it complied with applicable matching requirements and award terms for all grants tested.

Corrective Action:

Corrective action was taken.

Reference No. 10-120

Reporting

Research and Development Cluster
Award years - June 1, 2007 to July 31, 2009, August 1, 2007 to July 31, 2008, and multiple
Award numbers - 12.000 NSEP-U631006-UT-ARA, 15.504 07HQGR0147, and multiple
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written:	2009
Status:	Implemented
U.S. Department of the Interior U.S. Department of Defense	

The University of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming

changes and migrating 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 federal research and development grants.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report (FSR)* SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271 (Title 45, Code of Federal Regulations, Section 74.52). FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

The University did not consistently file the required financial reports with granting agencies in a timely manner. Specifically, it submitted 3 (6.5 percent) of 46 reports tested to the grantor late. The number of days that the University submitted reports late ranged from 4 to 33 days. Failure to submit required reports within the required time frame may result in suspension or termination of an active grant; withholding of a non-competing continuation award; or other enforcement actions, including withholding of payments or conversion to the reimbursement method of payment.

Corrective Action:

Corrective action was taken.

University of Texas at El Paso

Reference No. 09-100

Allowable Costs/Cost Principles

Research and Development Cluster

Award years - Multiple

Award numbers - CFDA 12.630 HM1582-06-1-2047, CFDA 43.0002 UTEP006-060208, CFDA 81.089 DEFG26-05NT42491, CFDA 84.120 P120A070032B, CFDA 93.113 5 S11 ES013339-03, CFDA 12.901 H98230-06-C-0500, CFDA 93.859 5 R25 GM069621-04, CFDA 47.076 EHR-0227124, CFDA 93.243 5 H79 T117155-03, CFDA 12.630 2273-219, CFDA 47.076 HRD-0217691, CFDA 47.076 DUE-0631168, and CFDA 12.000 W9113M-08-C-0010

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 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 J, Subsection 10).

Initial Year Written: 2008
Status: Implemented

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

For 13 (92.8 percent) of 14 time and effort items tested at the University of Texas at El Paso (University), the employees' *Time and Effort Certification Reports* for the applicable period were not completed in a timely manner (completion was considered timely if it occurred within 30 days of receipt of the forms). For 4 (31 percent) of the 13, the employees' *Time and Effort Certification Reports* were certified more than 6 months from the expected certification date.

The University's time and effort certification policy in effect for fiscal year 2008 did not contain time limits for the completion of effort reporting. The policy stated only that the Office of Research and Sponsored Projects will deliver the *Time and Effort Certification Reports* to the principal investigator on a monthly basis. However, guidance from the University of Texas System on effort reporting policies requires that institutions implement effort policies that (1) require all *Effort Certification Reports* to be completed within 30 days of receipt of the forms and (2) include the consequences of not completing *Effort Certification Reports* in a timely manner (UTS-163 - Guidance on Effort Reporting Policy) <http://www.utsystem.edu/policy/policies/uts163.html>.

Corrective Action:

Corrective action was taken.

University of Texas Health Science Center at Houston

Reference No. 09-103

Procurement and Suspension and Debarment

Research and Development Cluster

Award year - July 1, 2007 to June 30, 2008

Award number - CFDA 93.279 5R01DA017505-04

Type of finding - Significant Deficiency and Non-Compliance

Federal rules require that, when a non-federal entity enters into a covered transaction that is expected to equal or exceed \$25,000 with an entity at a lower tier, the non-federal entity must verify that the entity at the lower tier is not suspended, debarred, or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. (Office of Management and Budget Circulars A-102, Grants and Cooperative Agreements with State and Local Governments, Section 1.d and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart B.13; Executive Orders 12549 and 12689, Debarment and Suspension; Title 45 Code of Federal Regulations, Part 76, Government wide Debarment and Suspension).

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Health and
Human Services

The University of Texas Health Science Center at Houston's (Health Science Center) procurement policy requires vendor suspension and debarment certifications for transactions with amounts that are greater than \$25,000.

One (8 percent) of 12 vendor files tested at the Health Science Center did not contain a suspension and debarment certification. Auditors' review of the EPLS Web site indicated that the vendor was not suspended or debarred.

Corrective Action:

This finding was reissued as current year reference number: 11-175.

University of Texas Health Science Center at San Antonio

Reference No. 10-123

Reporting**Research and Development Cluster**

Award years - June 1, 2007 to June 30, 2008; April 1, 2008 to March 31, 2009; February 1, 2007 to July 31, 2008; February 1, 2008 to March 31, 2009; June 6, 2008 to February 28, 2009; July 1, 2007 to June 30, 2008; August 1, 2007 to July 31, 2008; July 1, 2007 to June 30, 2008; May 15, 2008 to January 1, 2009; August 1, 2008 to September 30, 2008; July 1, 2006 to August 30, 2008; June 1, 2008 to May 31, 2009; July 1, 2007 to June 30, 2008; March 1, 2008 to February 28, 2009; September 30, 2007 to March 30, 2009; and September 30, 2007 to March 30, 2009

Award numbers - CFDA 93.121 5 K23 DE014864, 5 R01 DE015857, 2 T32 DE014318, 5 R03 DE016949; CFDA 93.853 5 R01 N05027, 2 U01 NS038529; CFDA 93.847 5 U01 DK048514, 5 U01 DK057171; CFDA 93.395 6 U01 CA069853; CFDA 93.866 5 P30 AG013319; CFDA 93.242 5 R01 MH078143; CFDA 93.110 U32MC00148; CDFA 93.849 5 U01 DK05823; CFDA 93.399 5 U01 CA086402; and CFDA 93.243 5 H79 T107434 5 H79 T1016949

Type of finding - Significant Deficiency and Non-Compliance

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the Financial Status Report (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271 (Title 45, Code of Federal Regulations, Section 74.52). FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

Initial Year Written: 2009
Status: Implemented

National Institutes of Health

U.S. Department of Health
and Human Services

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

The University of Texas Health Science Center at San Antonio (Health Science Center) did not consistently submit FSRs within the required time frames. Specifically, it submitted 16 (40 percent) of 40 FSRs tested late. It submitted those 16 FSRs between 3 and 162 days late, and it submitted 4 of those 16 FSRs more than 60 days late.

Failure to submit required reports within the required time frame may result in suspension or termination of an active grant; withholding of a non-competing continuation award; or other enforcement actions, including withholding of payments or conversion to the reimbursement method of payment.

Corrective Action:

Corrective action was taken.

Reference No. 10-124

Subrecipient Monitoring

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all Major Programs with Expenditures of ARRA Awards

Research and Development Cluster

Research and Development Cluster - ARRA

Award years - June 10, 2009 to May 31, 2010 (ARRA) and September 15, 2007 to June 30, 2008

Award numbers - CFDA 93.701 1R01DK080148-01A2 (ARRA) and CFDA 93.866 125431/125429

Type of finding - Significant Deficiency and Non-Compliance

American Recovery and Reinvestment Act Requirements

The American Recovery and Reinvestment Act (ARRA) of 2009 required recipients to separately identify to each subrecipient--and document at the time of sub-award and at the time of disbursement of funds--the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of ARRA funds. In addition, recipients must require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify ARRA funding similar to the requirements for the recipient's SEFA. This information is needed to allow the recipient to properly monitor subrecipient expenditures of ARRA funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office.

Initial Year Written:	2009
Status:	Implemented
National Institutes of Health	

According to its policies and procedures, the University of Texas Health Science Center at San Antonio (Health Science Center) will provide the federal award number, CFDA number, and amount of ARRA funds when disbursing ARRA funds to subrecipients. In addition, the policies indicate that language will be included in ARRA subawards to require subrecipients to separately account for and identify ARRA funding on their SEFA.

The Health Science Center had one subrecipient agreement that included ARRA funds during fiscal year 2009. During fiscal year 2009, the Health Science Center made only one payment to this subrecipient in the amount of \$1,660.59. The Health Science Center included a stipulation in the subaward that indicated the subrecipient should adhere to ARRA reporting requirements; however, the subaward did not specifically indicate that the subrecipient was required to identify ARRA funding on its SEFA and Form SF-SAC. In addition, at the time of the disbursement of funds, the Health Science Center did not provide appropriate documentation such as the federal award number, CFDA number, and the amount of ARRA funds.

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

Additionally, the Health Science Center's subrecipient monitoring policy requires all federal flow-through subawards to include appropriate debarment language requiring the subrecipient to assure that the principal investigator, principals on the project, and institution are not debarred from receiving federal funds.

For 1 (3 percent) of 39 subawards tested, the Health Science Center did not include a clause in the contract with the subrecipient that signified that the subrecipient was not suspended or debarred.

Auditors conducted an EPLS search for the entity for which the Health Science Center did not have a suspension and debarment certification and determined that the entity was not suspended or debarred.

Corrective Action:

Corrective action was taken.

University of Texas M. D. Anderson Cancer Center

Reference No. 10-125

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

(Prior Audit Issue - 08-82)

Research and Development Cluster

Award years - Multiple

Award numbers - All Research and Development Grants

Type of finding - Significant Deficiency and Non-Compliance

Direct Costs - Time and Effort Reporting

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. For other employees, unless alternate arrangements are agreed to, activity reports must be prepared no less frequently than monthly and must coincide with one or more pay periods (Title 2, Code of Federal Regulations, Section 220(J)(10)).

Initial Year Written: 2007
Status: Implemented

U.S. Department of Health
and Human Services

The University of Texas M.D. Anderson Cancer Center's (Cancer Center) policy requires the completion of effort certification on a quarterly basis. Certifications must be completed within 30 days of notification that the effort reports are ready for review. For 4 (11 percent) of 36 payroll items tested at the Cancer Center, the employees' effort certification reports for the applicable period were not completed within the time frames required by the Cancer Center's policy. These 4 effort certification reports were completed 3 to 84 days late (or 70 to 166 days after the end date of the effort reporting period). One of these 4 effort certification reports was for funds from the American Recovery and Reinvestment Act (ARRA).

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.

Disclosure Statement

Educational institutions that receive aggregate sponsored agreements totaling \$25 million or more and that are subject to Office of Management and Budget Circular A-21 during their most recently completed fiscal year must disclose their cost accounting practices by filing a Disclosure Statement (DS-2). With the approval of the federal cognizant agency, an educational institution may meet the DS-2 submission by submitting the DS-2 for each business unit that received \$25 million or more in sponsored agreements (Title 2, Code of Federal Regulations, Appendix A to Part 220.C.14). Furthermore, financial management systems of recipients of federal awards should provide for written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award (Office of Management and Budget Circular A-110, Section C.21(b)).

The Cancer Center submitted its DS-2 on February 28, 2008, effective September 1, 2007. Auditors attempted to conduct tests to determine whether the DS-2 agreed with the policies in the Cancer Center's

current cost accounting policies and procedures. However, the Cancer Center does not have written cost accounting policies.

An absence of written cost accounting policies can decrease the likelihood of achieving uniformity and consistency in the measurement, assignment, and allocation of costs to federal grants and contracts.

Corrective Action:

Corrective action was taken.

Reference No. 10-126

Cash Management

Research and Development Cluster

Award year - August 1, 2007 to August 31, 2009

Award number - CFDA 12.420 W81XWH-07-1-0552

Type of finding - Significant Deficiency and Non-Compliance

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

Initial Year Written: 2009
Status: Implemented
U.S. Department of Defense

The University of Texas M.D. Anderson Cancer Center (Cancer Center) earned interest on advance payments for grants awarded by the U.S. Department of Defense. The Cancer Center uses a standardized worksheet to calculate the interest earned. However, this worksheet included a formula error that resulted in a miscalculation and underpayment of interest. For one grant, the Cancer Center underpaid interest earned by \$1,816.

Corrective Action:

Corrective action was taken.

Reference No. 10-127

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

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal

Initial Year Written: 2009
Status: Implemented
U.S. Department of Health and Human Services
U.S. Department of Defense

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

To ensure compliance with federal suspension and debarment requirements, the University of Texas M.D. Anderson Cancer Center (Cancer Center) uses a daily program that searches information at several Web sites, including EPLS, and reports any suspension and debarment changes in the status of its vendors. However, the program generates a report only when there are vendor status changes to report. As a result, if there are no changes, no report is generated that demonstrates that the Cancer Center verified suspension and debarment status. The program the Cancer Center uses has a feature that documents when the EPLS was checked; however, the Cancer Center does not use that feature because management asserts that the report is generated daily. In addition, the program runs only when staff initiate it. Therefore, auditors could not rely on automated operations scheduling as evidence that the program runs on a daily basis.

The Cancer Center did not maintain documentation that it verified the suspension and debarment status of its vendors for 8 (40 percent) of 20 procurements tested. Auditors reviewed the EPLS Web site for the vendors related to the above procurements and determined that the vendors were not suspended or debarred.

The procurements above were related to the following awards:

Award Numbers (CFDA)

Award Years

5U19 CA100265 05 (93.395)
5R01 DK070770 05 (93.847)
5P50 CA116199 04 (93.398)
5R01 CA122568 03 (93.395)
5R01 CA123252 03 (93.394)
5R01 HG003844 03(93.172)
5U19 CA100265 05 (93.395)
W81XWH-05-2-0027 04 (12.420)

September 30, 2003 to November 30, 2009
June 1, 2005 to May 31, 2010
September 23, 2005 to August 31, 2010
June 18, 2007 to April 30, 2010
September 27, 2006 to July 31, 2010
September 15, 2006 to August 31, 2010
September 30, 2003 to November 30, 2009
February 1, 2005 to January 31, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-128

Special Tests and Provisions - Key Personnel

Research and Development Cluster

Award year - September 4, 2008 to August 31, 2009

Award number - CFDA 93.397 5 P50 CA083639-09

Type of finding - Significant Deficiency and Non-Compliance

For federal awards issued by the National Institutes of Health (NIH), the grantee is required to notify the grant management office in writing if the principal investigator or key personnel specifically named in the Notice of Grant Award (NOGA) will withdraw from the project entirely, be absent from the project during any continuous period of 3 months or more, or reduce time devoted to the project by 25 percent or

Initial Year Written: 2009
Status: Implemented
National Institutes of Health

more from the level that was approved at the time of award (e.g., a proposed change from 40 percent effort to 30 percent effort or less). NIH must approve any alternate arrangement proposed by the grantee, including any replacement of the principal investigator or key personnel named in the NOGA. The requirements to obtain NIH prior approval for a change in status pertains only to the principal investigator and those key personnel NIH names in the NOGA, regardless of whether the grantee designates others as key personnel for its own purposes (NIH Grants Policy Statement (December 2003) Part II: Terms and Conditions of NIH Grant Awards Subpart A: General). Federal grantors other than NIH have similar requirements.

Based on completed effort certifications, key personnel did not meet the minimum level of commitment for 1 (8 percent) of 12 grants tested at the University of Texas M.D. Anderson Cancer Center (Cancer Center). For this grant, the progress report indicated that the principal investigator was involved with the grant as required. However, the principal investigator certified zero effort for fiscal year 2009, when his minimum committed effort established in the NOGA was 15 percent for that time period. This is an indication of a lack of effective monitoring over effort commitment and certification.

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 10-129

Cash Management

Research and Development Cluster

Award year - August 1, 2008 to July 31, 2009

Award numbers - CFDA 12.420 W81XWH-08-2-0139 and CFDA 12.420 W81XWH-08-2-0137

Type of finding - Significant Deficiency and Non-Compliance

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

Initial Year Written: 2009
Status: Implemented
U.S. Department of Defense

The University of Texas Medical Branch at Galveston (Medical Branch) earned interest on advance payments for two grants awarded by the U.S. Department of Defense. For two awards with interest requirements, the Medical Branch did not activate the interest-bearing flag in its accounting system, PeopleSoft, to indicate that interest should be tracked and returned. As a result, when the Medical Branch ran a query in April 2009 to calculate the interest earned in 2008, the query did not include these two awards, and the Medical Branch did not return any interest for these awards. Total interest earned in 2008 for these awards was \$1,709.

Corrective Action:

Corrective action was taken.

Reference No. 10-130

Equipment and Real Property Management

Research and Development Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

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

Initial Year Written: 2009
Status: Implemented
U.S. Department of Health and Human Services
U.S. Department of Defense
U.S. Department of Agriculture

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)).

For 9 (23 percent) of 40 equipment items tested, the University of Texas Medical Branch at Galveston (Medical Branch) did not include all required information about the equipment in its property records. Specifically, nine property records did not contain the manufacturer’s serial number or other identification number. According to the Medical Branch, these items were too heavy to move or were surrounded by equipment that prevented it from obtaining the serial numbers.

Discrepancies between property records and the physical equipment items increase the risk that equipment accountability may be compromised.

Equipment acquired with federal funds pertained to the following award numbers and award years:

<u>CFDA</u>	<u>Award Number</u>	<u>Award Years</u>
93.000	N01-AI-40097/HHSN266	September 20, 2004 to September 29, 2009
93.855	5UC7AI07008304	May 3, 2006 to April 30, 2011
12.300	N000140610300	December 19, 2005 to September 29, 2010
93.855	5R01AI07114504	May 1, 2009 to April 30, 2010
93.866	5 R01 AG021539-05	June 1, 2007 to May 31, 2010
10.206	20083520404625	September 1, 2008 to August 31, 2011
93.837	5R01HL07092506	April 1, 2009 to March 31, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-131

Reporting

Research and Development Cluster

Award years - see below

Award numbers - see below

Type of finding - Significant Deficiency and Non-Compliance

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

Initial Year Written: 2009
 Status: Partially Implemented

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

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

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

annually, the FSR must be submitted for each budget period no later than 90 days after the close of the budget period or applicable 12-month period.

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

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

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

This issue affected the following awards:

<u>CFDA</u>	<u>Award Number</u>	<u>Award Years</u>
93.865	5K12HD05592902	September 25, 2007 to August 31, 2008
93.856	5 R21 AI063235-02	March 1, 2006 to January 31, 2009
93.855	1 R21 AI066999-01A2	September 30, 2006 to August 31, 2008
93.113	5T32ES00725417	September 1, 2007 to June 30, 2008
93.855	5 K08 AI055792-04	February 1, 2007 to July 31, 2008
93.279	5T32DA00728712	July 1, 2007 to June 30, 2008
93.855	1R01AI07330101A1	April 1, 2008, January 5, 2009
93.859	5T32GM008256-17	July 1, 2007 to June 30, 2008
93.859	2R01GM062882-06A2	May 15, 2008 to September 30, 2008
93.853	5 P01 NS011255-31	April 1, 2007 to March 31, 2008
93.838	5 U10 HL074206-05	April 15, 2007 to July 31, 2008
93.866	5 T32 AG000270-09	May 1, 2007 to April 30, 2008
43.001	NNA05CV50G	October 1, 2005 to September 30, 2008
93.273	5 R01 AA013171-05	August 1, 2006 to July 31, 2008
93.821	5 R01 GM064855-04	August 1, 2005 to July 31, 2008
93.837	5R01HL05563011	January 1, 2007 to December 31, 2008
93.847	5T35DK07851902	July 1, 2007 to June 30, 2008
93.398	5T32CA11783403	July 1, 2007 to June 30, 2008
93.856	3 U01 AI032782-13S3	January 1, 2004 to March 31, 2008
93.855	5T32AI06539604	August 1, 2007 to July 31, 2008
93.848	5 T32 DK007639-15	July 1, 2007 to June 30, 2008

93.865	5T32HD00753907	May 1, 2007 to April 30, 2008
93.855	5U19AI04003513	July 1, 2007 to June 30, 2008
93.242	5U01MH064850-06	January 1, 2008 to December 31, 2008
93.856	5T32AI060549-05	July 1, 2007 to June 30, 2008

Recommendations:

The Medical Branch should:

- Establish procedures to ensure it submits reports to awarding agencies by the reporting deadlines.
- Ensure that it fully adheres to any conditional extensions for financial reporting granted by the OMB.

Management Response and Corrective Action Plan 2009:

UTMB Management agrees with the auditor's recommendation and is already working to increase the Financial Reporting group staffing level to have adequate resources dedicated to ensuring compliance with Federal reporting requirements.

To provide additional background, the Financial Reporting group (the functional area responsible for preparing and submitting all sponsored program financial reports), had identified an optimal staffing level of 7 accountants, but had 3 vacant positions at the time Hurricane Ike made landfall in September, 2008. Due to the unprecedented destruction caused by Hurricane Ike and the subsequent interruption of some services provided by the University, UTMB declared a state of financial exigency that resulted in a reduction-in-force of approximately 2,500 FTEs in November 2008. This reduction-in-force negatively impacted the Financial Reporting group: the three vacant positions were eliminated, along with some departmental administrative staff supporting the preparation of financial status reports. Additionally, staff turnover subsequent to Hurricane Ike resulted in the Financial Reporting group operating with only two accountants (5 below the optimal level) during most of fiscal year 2009. In our FY 2010 budget, the Financial Reporting group was authorized to fill the five accountant positions, those eliminated after Hurricane Ike, along with the two vacancies. Additionally, another accountant position and a senior financial analyst position were added to the group to handle the additional reporting requirements and volume associated with awards issued under the American Recovery and Reinvestment Act (ARRA) of 2009.

As of the end of January 2010, we have filled four of the seven open positions noted above, and are diligently working to fill the remaining three open positions. We expect to be current with all of our financial reports by the end of calendar year 2010.

Management Response and Corrective Action Plan 2010:

Implementation of this recommendation is in process. As of May 31, 2010 all vacant positions in the Financial Status Reporting Section have been filled and training is underway. An action plan was developed to take into account all past due Financial Reports, anticipated reports that will be during calendar 2010, and an estimate of the number of reports that can be completed each month. As of May 31, 2010, we are ahead of our target and expect that we will reach a state of currency on or before the implementation date of December 31, 2010.

Implementation Date: December 31, 2010

Responsible Person: John B. States

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, 2009, through August 31, 2010. The audit work included control and compliance tests at one agency and seven higher education institutions across the State.

Methodology

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

Information collected and reviewed included the following:

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

Procedures and tests conducted included the following:

- Analytical procedures using 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 design of controls to assess the sufficiency of each agency and higher education institution's control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

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

Project Information

Audit fieldwork was conducted from June 2010 through January 2011. 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:

- Kristin Alexander, CIA, CFE, MBA (Project Manager)
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- Michelle Lea DeFrance, CPA (Assistant Project Manager)
- Audrey O'Neill, CGAP (Assistant Project Manager)
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- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
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- Dana Musgrave, MBA (Quality Control Reviewer)
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