



A Report on

**State of Texas Compliance with
Federal Requirements for the
Research and Development Cluster
for the Fiscal Year Ended
August 31, 2015**

February 2016

Report No. 16-017



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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Research and Development Cluster in fiscal year 2015.

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 \$500,000¹ in federal awards in a fiscal year to obtain annual Single Audits. Those audits test 12 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, procurement, reporting, and monitoring of non-state entities (subrecipients) to which the State passes federal funds. The requirements for 1 of those 12 areas vary by federal program and outline special tests that auditors are required to perform, such as requirements related to the identification of key personnel who work on each federal award. The compliance areas determined to be direct and material may vary significantly among audited entities. Therefore, a comparison of the number of reported findings among entities included in this report may not be an accurate indicator of performance. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$76,877,448 in federal funds during fiscal year 2015 and (2) other selected federal programs.

Research and Development Cluster

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

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

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

From September 1, 2014, through August 31, 2015, the State of Texas expended \$51 billion in federal funds. The State Auditor’s Office audited compliance with requirements for the Research and Development Cluster at seven higher education institutions (see text box). Those seven higher education institutions spent \$803 million in federal Research and Development Cluster funds during fiscal year 2015. Auditors identified 22 findings classified as significant deficiency and non-compliance for the Research and Development Cluster.

See text box for definitions of finding classifications.

Key Points

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

Texas A&M AgriLife Research, Texas A&M University, the University of Texas at Austin, the University of Texas at Dallas, the University of Texas Health Science Center at Houston, and the University of Texas Southwestern Medical Center did not always incur costs within the period of availability and/or did not always liquidate obligations within the required time period.

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

The University of Texas at Dallas did not comply with salary restrictions for key personnel and did not consistently maintain documentation of review and approval for some employees’ appointments to federal awards. In addition, the University of Texas at Dallas charged unallowable costs (gratuities) to federal awards.

The University of North Texas conducted an internal investigation related to the effort that one of its researchers charged to a federal award. The University of North Texas determined that the associated payroll charges resulted from unintentional errors related to the effort that researcher reported.

The University of Texas Southwestern Medical Center did not ensure that the costs of services provided by specialized service facilities were designed to recover only

Higher Education Institutions Audited

- Texas A&M AgriLife Research.
- Texas A&M University.
- University of North Texas.
- The University of Texas at Austin.
- The University of Texas at Dallas.
- The University of Texas Health Science Center at Houston.
- The University of Texas Southwestern Medical Center.

Finding Classifications

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

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

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

the aggregate costs of the services, and it did not adjust those facilities' rates, as required, due to excessive fund balances.

Four higher education institutions audited did not always comply with federal cash management requirements.

The University of Texas at Dallas did not always minimize the time between the drawdown of federal funds and the disbursement of those funds.

Texas A&M AgriLife Research, the University of Texas at Dallas, the University of Texas Health Science Center at Houston, and the University of Texas Southwestern Medical Center did not always identify, track, and/or remit to the federal government interest they earned on federal funds received in advance of making program expenditures.

Four higher education institutions audited did not always comply with federal reporting requirements.

The University of Texas at Austin, the University of Texas at Dallas, the University of Texas Health Science Center at Houston, and the University of Texas Southwestern Medical Center did not always ensure that their financial reports were complete, accurate, supported by applicable accounting records, or submitted on the correct accounting basis.

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

Texas A&M University, the University of Texas at Austin, and the University of Texas Southwestern Medical Center did not always comply with (1) state and federal equipment requirements or (2) their procedures for facilitating compliance with those requirements. They did not always maintain adequate property records for equipment.

The University of Texas at Austin and the University of Texas Southwestern Medical Center did not always resolve discrepancies they identified during their physical inventories in a timely manner or in accordance with their procedures.

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

The University of Texas Health Science Center at Houston did not always (1) accurately provide or obtain all required information prior to awarding subawards, (2) obtain the required subrecipient Single Audit reports, and (3) consistently monitor subrecipient activities during the subaward to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal requirements. In addition, it did not document its assessment of the risk of noncompliance for each subrecipient and its determination of the appropriate level of subrecipient monitoring.

Three higher education institutions audited did not always have adequate controls over key information technology systems.

Auditors identified control weaknesses related to inappropriate access to information technology systems at the University of Texas at Dallas and the University of Texas Health Science Center at Houston. In addition, auditors identified control weaknesses related to change management for information technology at the University of Texas Southwestern Medical Center.

Auditors followed up on state entities' corrective action plans for 26 audit findings from prior fiscal years related to the Research and Development Cluster.

State entities fully implemented corrective action plans for 7 (27 percent) of those 26 findings and partially implemented corrective action plans for 19 (73 percent) of those 26 findings.

Summary of Management's Response

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

Audit Objectives and Scope

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

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2014, through August 31, 2015. The audit work included control and compliance tests at seven higher education institutions across the state.

Contents

<i>Independent Auditor’s Report</i>	1
<i>Schedule of Findings and Questioned Costs</i>	9
Section 1:	
Summary of Auditor’s Results	10
Section 2:	
Financial Statement Findings	11
Section 3:	
Federal Award Findings and Questioned Costs	12
Texas A&M AgriLife Research	12
Texas A&M University	15
University of North Texas	19
University of Texas at Austin	20
University of Texas at Dallas	28
University of Texas Health Science Center at Houston ..	41
University of Texas Southwestern Medical Center	56
Summary Schedule of Prior Year Audit Findings	70
Texas A&M AgriLife Research	70
Texas A&M Engineering Experiment Station	72
Texas A&M Health Science Center	75
Texas A&M University - Corpus Christi	83
Texas Tech University	86
University of Houston	88
University of Texas at Austin	99
University of Texas at El Paso	100
University of Texas Health Science Center at Houston .	104
University of Texas M.D. Anderson Cancer Center	113
University of Texas Medical Branch at Galveston	123
University of Texas Southwestern Medical Center	127
<i>Appendix</i>	
Objectives, Scope, and Methodology	128

Independent Auditor's Report

*State of Texas Compliance with
Federal Requirements for the
Research and Development Cluster for
the Fiscal Year Ended
August 31, 2015*



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

Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Texas Legislature, State of Texas

Report on Compliance for the Research and Development Cluster

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2015. The State's major federal program at various higher education institutions is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the State's compliance for the Research and Development Cluster based on our audit of the types of compliance requirements referred to above. Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster occurred. An audit

includes examining, on a test basis, evidence about the State’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2015. 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, 2015. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements.

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

Opinion on the Research and Development Cluster

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster for the year ended August 31, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
Texas A&M AgriLife Research	Research and Development Cluster	Cash Management	2015-103
	Research and Development Cluster	Period of Availability of Federal Funds	2015-104
Texas A&M University	Research and Development Cluster	Equipment and Real Property Management	2015-107
	Research and Development Cluster	Period of Availability of Federal Funds	2015-108
University of North Texas	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-127
University of Texas at Austin	Research and Development Cluster	Equipment and Real Property Management	2015-134
	Research and Development Cluster	Period of Availability of Federal Funds Period of Performance	2015-135

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
University of Texas at Dallas	Research and Development Cluster	Reporting	2015-136
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-137
	Research and Development Cluster	Cash Management	2015-138
	Research and Development Cluster	Period of Availability of Federal Funds	2015-139
	Research and Development Cluster	Reporting	2015-140
University of Texas Health Science Center at Houston	Research and Development Cluster	Cash Management Activities Allowed or Unallowed Allowable Costs/Cost Principals Equipment and Real Property Management	2015-142
	Research and Development Cluster	Period of Availability of Federal Funds	2015-143
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Reporting	2015-144
	Research and Development Cluster	Subrecipient Monitoring	2015-145
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	
	Research and Development Cluster	Special Tests and Provisions - Key Personnel	2015-146
University of Texas Southwestern Medical Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-151
	Research and Development Cluster	Cash Management	2015-152
	Research and Development Cluster	Equipment and Real Property Management	2015-153
	Research and Development Cluster	Period of Availability of Federal Funds	2015-154
	Research and Development Cluster	Reporting	2015-155

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

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we consider the following deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies:

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
Texas A&M AgriLife Research	Research and Development Cluster	Cash Management	2015-103
	Research and Development Cluster	Period of Availability of Federal Funds	2015-104
Texas A&M University	Research and Development Cluster	Equipment and Real Property Management	2015-107

Higher Education Institution	Cluster	Compliance Requirement	Finding Number
	Research and Development Cluster	Period of Availability of Federal Funds	2015-108
University of North Texas	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-127
University of Texas at Austin	Research and Development Cluster	Equipment and Real Property Management	2015-134
	Research and Development Cluster	Period of Availability of Federal Funds Period of Performance	2015-135
	Research and Development Cluster	Reporting	2015-136
University of Texas at Dallas	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-137
	Research and Development Cluster	Cash Management	2015-138
	Research and Development Cluster	Period of Availability of Federal Funds	2015-139
	Research and Development Cluster	Reporting	2015-140
University of Texas Health Science Center at Houston	Research and Development Cluster	Cash Management Activities Allowed or Unallowed Allowable Costs/Cost Principals Equipment and Real Property Management	2015-142
	Research and Development Cluster	Period of Availability of Federal Funds	2015-143
	Research and Development Cluster - ARRA		
	Research and Development Cluster	Reporting	2015-144
	Research and Development Cluster	Subrecipient Monitoring	2015-145
	Research and Development Cluster - ARRA	Special Tests and Provisions - R3 - Subrecipient Monitoring	
	Research and Development Cluster	Special Tests and Provisions - Key Personnel	2015-146
University of Texas Southwestern Medical Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principals	2015-151
	Research and Development Cluster	Cash Management	2015-152
	Research and Development Cluster	Equipment and Real Property Management	2015-153
	Research and Development Cluster	Period of Availability of Federal Funds	2015-154
	Research and Development Cluster	Reporting	2015-155

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

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

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Research and Development Cluster of the State for the year ended August 31, 2015, 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, 2015*.

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

February 22, 2016

**Schedule of Federal Program Expenditures for the
Research and Development Cluster for the State of Texas
For the Year Ended August 31, 2015**

Schedule of Federal Program Expenditures			
Higher Education Institution Audited	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Texas A&M AgrLife Research			
Other Than American Recovery and Reinvestment Act	\$ 9,048,975	\$ 46,643,358	\$ 55,692,333
American Recovery and Reinvestment Act	0	0	0
Texas A&M University			
Other Than American Recovery and Reinvestment Act	11,373,333	47,748,077	59,121,410
American Recovery and Reinvestment Act	0	0	0
University of North Texas			
Other Than American Recovery and Reinvestment Act	761,125	14,097,227	14,858,352
American Recovery and Reinvestment Act	0	197,039	197,039
University of Texas at Austin			
Other Than American Recovery and Reinvestment Act	24,676,569	314,525,871	339,202,440
American Recovery and Reinvestment Act	161,094	1,767,371	1,928,465
University of Texas at Dallas			
Other Than American Recovery and Reinvestment Act	1,122,963	29,859,719	30,982,682
American Recovery and Reinvestment Act	0	0	0
University of Texas Health Science Center at Houston			
Other Than American Recovery and Reinvestment Act	16,312,150	103,791,823	120,103,973
American Recovery and Reinvestment Act	58,888	608,954	667,842
University of Texas Southwestern Medical Center			
Other Than American Recovery and Reinvestment Act	9,935,737	169,931,496	179,867,233
American Recovery and Reinvestment Act	0	223,633	223,633
Total Audited Research and Development Other Than American Recovery and Reinvestment Act	\$ 73,230,852	\$ 726,597,571	\$ 799,828,423
Total Audited Research and Development American Recovery and Reinvestment Act	\$ 219,982	\$ 2,796,997	\$ 3,016,979
Total Audited	\$ 73,450,834	\$ 729,394,568	\$ 802,845,402
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015</i>.</p> <p>Note 2: Federal expenditures for the Research and Development Cluster at state entities not included in the scope of this audit totaled \$754,776,209 for the fiscal year ended August 31, 2015. Of that amount, \$1,280,815 was American Recovery and Reinvestment Act expenditures.</p> <p>Note 3: The Research and Development Cluster includes many programs funded by various federal agencies. For a list of Research and Development expenditures by program or by federal awarding agency, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015</i>.</p>			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with
Federal Requirements for the
Research and Development Cluster for
the Fiscal Year Ended
August 31, 2015*

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015*.

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: \$76,877,448

Auditee qualified as low-risk auditee? No

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015*.

Section 3:

Federal Award Findings and Questioned Costs

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

Texas A&M AgriLife Research

Reference No. 2015-103

Cash Management

Research and Development Cluster

Award years – October 1, 2014 to September 30, 2015 and May 1, 2014 to September 30, 2015

Award numbers - CFDA 12.114, Collaborative Research and Development, FY2015ITAM and CFDA 93.397, Cancer Center Support Grants, HHSN269201400511P

Type of Finding - Significant Deficiency and Non-Compliance

A recipient must maintain advances of federal funds in interest-bearing accounts unless: (1) the recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22(k)). For those entities 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 must 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 must comply with CMIA as it pertains to interest (Title 2, CFR, Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires a 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. A 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
U.S. Department of Health and Human Services

Texas A&M AgriLife Research (AgriLife) did not always maintain advances of federal funds in interest-bearing accounts. AgriLife established a process to maintain advances of federal funds in interest-bearing accounts. However, it did not identify two federal awards that required the placement of advances of funds in interest-bearing accounts. AgriLife received federal funds in advance of expenditures for both of those federal awards, but it did not maintain the funds in interest-bearing accounts. Therefore, AgriLife should have remitted \$213 in interest for those two federal awards, excluding the allowance for administrative expense, to the federal government. After auditors brought this matter to its attention, AgriLife provided documentation showing that it remitted interest to the U.S. Department of Health and Human Services. Therefore, there were no questioned costs.

If AgriLife does not maintain advances in interest-bearing accounts, it cannot earn or remit to the federal government interest exceeding \$250 per year on funds it received in advance of expenditures.

Recommendations:

AgriLife should:

- Maintain advances of federal funds in interest-bearing accounts.

- Strengthen controls over the identification of federal awards with interest requirements.

Views of Responsible Officials and Corrective Action Plan:

Texas A&M AgriLife Research and Texas A&M Sponsored Research Services acknowledge and agree with the finding. Texas A&M Sponsored Research Services has enhanced procedures for identifying federal awards with interest tracking requirements. As these funds are identified they will be maintained in interest bearing accounts by Texas A&M AgriLife Research. Interest earned that exceeds \$500 annually will be remitted to the federal government.

Implementation Date: January 2016

Responsible Persons: Diane Hassel and Debra Cummings

Reference No. 2015-104

Period of Availability of Federal Funds

(Prior Audit Issue 12-129)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

<p>Questioned Cost: \$ 0</p> <p>U.S. Department of Agriculture U.S. Department of Defense U.S. Department of the Interior U.S. Environmental Protection Agency U.S. Agency for International Development</p>
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Texas A&M AgriLife Research (AgriLife) did not always liquidate its obligations within the required time period.

For one non-adjustment transaction tested, AgriLife liquidated the obligation more than 90 days after the end of the award period.

In addition, for 5 (71 percent) of 7 adjustments tested, AgriLife did not make the adjustments within 90 days of the end of the period of availability of federal funds. Specifically, for four of those adjustments, AgriLife made adjustments to remove cost overruns between three and six years after the period of availability of those awards. For one of those adjustments, AgriLife made adjustments to remove payroll from a grant more than 120 days after the period of availability for that grant.

AgriLife’s grant closeout process is not adequately designed to mitigate the risk of noncompliance. AgriLife relies on contract supervisors and Texas A&M University System Sponsored Research Services to review monthly expenditure reports and identify charges outside of the funding period to ensure that it does not pay for those charges with federal funds. If staff do not identify charges outside of the funding period, AgriLife could spend federal funds improperly, which could affect its ability to obtain future grant funding.

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

TEXAS A&M AGRILIFE RESEARCH

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
10.912	Environmental Quality Incentives Program	68-7442-13-515	September 17, 2013 to September 16, 2014
12.630	Basic, Applied, and Advanced Research in Science and Engineering	FA7014-09-D-0017	April 23, 2010 to December 31, 2010
12.800	Air Force Defense Research Sciences Program	DAAE30-01-9-0800	December 5, 2007 to May 31, 2009
15.919	Department of the Interior	H5000 02 0271	February 26, 2004 to September 30, 2009
66.460	Nonpoint Source Implementation Grants	582-10-90468	May 12, 2010 to August 13, 2014
98.001	USAID Foreign Assistance for Programs Overseas	696-A-00-06-00157-00	September 1, 2006 to June 27, 2012

Recommendation:

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

Views of Responsible Officials and Corrective Action Plan:

Texas A&M Sponsored Research Services has implemented a procedure which provides for the close out of federal projects within the time specified by the sponsor. This procedure includes liquidation of all outstanding obligations and the final invoice or financial report submission to the sponsor. Texas A&M AgriLife Research and Texas A&M Sponsored Research Services will continue to train staff and principal investigators regarding the closeout of federal projects per sponsored requirements. The projects identified as exceptions were affected by extenuating circumstances and are not representative of our normal practice.

Implementation Date: January 2016

Responsible Person: Michele Lacy

Texas A&M University

Reference No. 2015-107

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

Questioned Cost: \$ 0
 U.S. Department of the Interior
 National Aeronautics and Space Administration
 National Science Foundation
 U.S. Department of Energy

In addition, Texas A&M University’s (University) *Property Management Procedures Manual* requires that an inventory tag with a bar code be affixed to new equipment items that are capitalized (items with a unit cost of \$5,000 or more) or controlled (certain items with a unit cost of \$500 to \$4,999.99).

The University did not always maintain adequate property records for its equipment. Specifically, the University did not adequately document in its accounting system’s property records 9 (15 percent) of 60 equipment items tested. The University did not update its property records with each equipment item’s serial number (1) when it initially received the equipment item or (2) during its annual inventory. While auditors were able to locate all equipment items tested, not properly maintaining property records increases the risk that equipment items may be lost or stolen.

In addition, the University did not properly tag 4 (7 percent) of 60 equipment items tested. Two of those errors occurred because of errors that academic departments made in tagging the equipment items. The University used the remaining two equipment items in the ocean, and asset tags could not be affixed to those equipment items due to the corrosive environment. The University asserted that it requires an asset tag be affixed to an equipment item’s container if the equipment item itself cannot be physically tagged; however, the University did not tag the containers for those two equipment items, and its policy did not address those types of items.

The following awards were affected by the issues noted above:

CFDA No.	CFDA Title	Award Number	Award Year
15.423	Bureau of Ocean Energy Management (BOEM) Environmental	M14AC00028	September 27, 2014 to September 30, 2019

TEXAS A&M UNIVERSITY

CFDA No.	CFDA Title	Award Number	Award Year
	Studies Program (ESP)		
43.003	Exploration	NNX15AB05G	October 6, 2014 to October 5, 2015
47.049	Mathematical and Physical Sciences	CHE-9512510	September 15, 1995 to August 31, 1996
47.050	Geosciences	EAR 0821455	August 1, 2008 to July 31, 2011
47.050	Geosciences	AGS-1251755	April 1, 2013 to March 31, 2016
47.078	Polar Programs	ANT-1313826	December 10, 2012 to August 31, 2016
81.049	Office of Science Financial Assistance Program	DE-FG02-93ER40773	January 5, 2005 to December 31, 2015
81.112	Stewardship Science Grant Program	DE-NA0001785	January 5, 2005 to December 31, 2015

Recommendations:

The University should:

- Strengthen its controls to maintain accurate and complete property records.
- Tag all equipment items in accordance with policy.
- Update its *Property Management Procedures Manual* to specify how to tag equipment items that are in corrosive or inhospitable environments.

Views of Responsible Officials and Corrective Action Plan:

Texas A&M University agrees with the recommendations and has strengthened controls to maintain accurate and complete property records. Property Management has expanded its efforts to obtain missing serial numbers for equipment assets and remind departments of the importance of properly and timely tagging their equipment. The Property Management Procedures Manual has been updated to specify how to tag equipment items that in corrosive or inhospitable environments. Property Management will continue to train staff and conduct spot audits annual to review and enhance compliance with property management procedures.

Implementation Date: February 1, 2016

Responsible Person: Todd Gregory

Reference No. 2015-108

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

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

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

Texas A&M University (University) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. For 2 (20 percent) of 10 transactions tested, the University incurred the underlying expenditures 94 and 124 days after the period of availability of the federal funds. For those transactions, the University provided documentation that it had either not requested reimbursement for those costs or had returned funds to the sponsor; therefore, those costs are not considered questioned costs. Those two transactions and two additional transactions also were not liquidated within 90 days of the end of the period of availability of federal funds.

In addition, for five other transactions, the University incurred and liquidated expenditures for periods of time ranging from 122 to 291 days after the period of availability of the federal funds; however, the University subsequently corrected those expenditures within a reasonable time frame. Therefore, there were no questioned costs associated with those five transactions.

The University’s grant closeout process is not adequately designed to mitigate the risk of noncompliance. The University relies on contract supervisors and Texas A&M University System Sponsored Research Services to review monthly expenditure reports and identify charges outside of the funding period to ensure that it does not pay for those charges with federal funds. If staff do not identify charges outside of the funding period, the University could spend federal funds improperly, which could affect its ability to obtain future grant funding.

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

CFDA No.	CFDA Title	Award Number	Award Year
12.335	Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance	N68936-12-C-0022	December 6, 2012 to September 17, 2014
12.431	Basic Scientific Research	W911NF-12-C-0104	September 25, 2012 to March 24, 2013
47.075	Social, Behavioral, and Economic Sciences	BCS-1147828	February 15, 2012 to January 31, 2014

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
81.000	Department of Energy	DE-AC52-07NA27344	September 6, 2013 to October 31, 2014
81.000	Department of Energy	STANDARD PURCHASE ORDER: 1271025	August 1, 2012 to May 31, 2015
84.002	Adult Education - Basic Grants to States	2914ABE00	September 1, 2013 to December 31, 2014
84.367	Improving Teacher Quality State Grants	S367B110038/ S367B120038	February 1, 2012 to April 30, 2014
93.630	Developmental Disabilities Basic Support and Advocacy Grants	IRB2012-0075	March 1, 2013 to February 28, 2014
93.837	Cardiovascular Diseases Research	R01HL111718	June 1, 2013 to May 31, 2014
93.859	Biomedical Research and Research Training	R01GM084447	April 1, 2012 to November 30, 2013

Recommendation:

The University should improve its closeout process to ensure that it closes grant accounts in its accounting system within the required 90-day closeout period.

Views of Responsible Officials and Corrective Action Plan:

Texas A&M Sponsored Research Services has implemented a procedure which provides for the close out of federal projects within the time specified by the sponsor. This procedure includes liquidation of all outstanding obligations and the final invoice or financial report submission to the sponsor. Texas A&M will continue to train staff and principal investigators regarding the closeout of federal projects per sponsored requirements.

Implementation Date: February 1, 2016

Responsible Person: Michele Lacey

University of North Texas

Reference No. 2015-127

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

Research and Development Cluster

Award year – September 18, 2008 to February 28, 2016

Award number – CFDA 12.800, Air Force Defense Research Sciences Program, FA8650-08-C-5226

Type of finding – Significant Deficiency and Non-Compliance

An institution’s method for distribution of payroll charges 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. For professorial and professional staff, reports will be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations, Section 220, Appendix A J.10.b.(2)(b) and J.10.c.(2)(e)).

Questioned Cost: \$ 68,236
U.S. Department of Defense

During this audit, the University of North Texas’s (University) Office of General Counsel disclosed to auditors that the University conducted an internal investigation related to the effort that one of its researchers charged to a federal award. The University determined that the associated payroll charges of \$68,236 resulted from unintentional errors related to the effort that researcher reported. In response to the increased risk related to payroll charges, auditors tested additional payroll related expenditures at the University but did not identify any additional instances of noncompliance or control deficiencies.

The University performs effort certification once each semester (usually two months after a semester ends) for only salaried employees based on payroll allocation. The principal investigator is responsible for reviewing and approving effort certifications for each employee.

Recommendations:

The University should:

- Coordinate the repayment of all questioned costs with the awarding agency.
- Improve controls related to the review and approval of effort charged to federal awards to help ensure that all charges are based on the effort contributed to federal awards.

Views of Responsible Officials and Corrective Action Plan:

1) *The University of North Texas will deduct \$68,236 in questioned costs from the next invoice submitted to the awarding agency. Supporting documentation will be provided to the State Auditor’s Office.*

Implementation Date: February 29, 2016

Responsible Persons: Dr. David Schultz and Britt Krhovjak

2) *A regular training regimen is being implemented with all principal investigators involved in federally funded research. The training includes reinforcement of requirements for supporting documentation for hours worked and allocation of effort.*

Implementation Date: September 30, 2016

Responsible Persons: Dr. David Schultz and Britt Krhovjak

University of Texas at Austin

Reference No. 2015-134

Equipment and Real Property Management

(Prior Audit Issues 2014-155, 2013-176, 13-161, and 12-170)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Equipment

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

Questioned Cost: \$ 0

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

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

The University did not always maintain adequate property records for its equipment items or adequately safeguard its equipment. Specifically, for 13 (21 percent) of 62 equipment items tested, the University’s property records were inaccurate. For each of those 13 items, the property records for 1 or more of the following was inaccurate: item location, information on the transfer of an item to another higher education institution, inventory tag number, or serial number. The University also did not appropriately safeguard and maintain 6 of those 13 equipment items; those 6 equipment items had total acquisition costs of \$94,475. Specifically, the University transferred two of those equipment items to another higher education institution before it completed its required process for property records, and it was unable to locate the remaining four equipment items at the time of the audit.

In addition, the University did not affix required asset tags to 9 (15 percent) of 60 equipment items tested.

The errors discussed occurred because the University did not always follow its policies and procedures or because it did not enter property records accurately and completely into its asset management system. Not properly maintaining property records and not adequately safeguarding equipment increases the risk that equipment may be lost or stolen.

Physical Inventory

A recipient must conduct a physical inventory of equipment and reconcile the results with equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the causes of the difference. The recipient must, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. A control system also must be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment must be investigated and fully documented; if the equipment was owned by the federal government, the recipient must promptly notify the federal awarding agency (Title 2, CFR, Section 215.34(f)).

The University's *Handbook of Business Procedures* states that when a unit administrator becomes aware that an item of equipment is missing, a diligent search must be performed until the item is found or until it is established that the equipment is lost or has been stolen. The *Handbook of Business Procedures* also specifies sanctions for a department with lost or stolen property in excess of 2 percent of the department's total inventory, including a fine of 50 percent of the lost inventory.

The University conducted a physical inventory of equipment during fiscal year 2015 in eight cycles, which staggered the time frame between department inventories. Auditors reviewed the physical inventory dated August 28, 2015, and identified 15 departments that had missing equipment items in excess of 2 percent of their individual inventory. However, the University did not notify those departments that they were not in compliance with policy and it did not impose the sanctions specified in its policy. Due to a lack of documentation, auditors were unable to determine whether the University took action to resolve the discrepancies identified during the physical inventory.

Not following up on discrepancies identified in a physical inventory increases the risk that the University could improperly dispose of equipment items purchased with federal funds.

The issues above affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00024-07-D-6200/0394 CLN 0001 ACN AA_AB	July 21, 2011 to December 20, 2014
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-0530 CLN 0003 ACN AA	January 29, 2013 to July 28, 2015
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-0538 CLN 0003 ACN AA AB	September 27, 2013 to September 26, 2015
12.431	Basic Scientific Research	W911NF-14-1-0393	July 7, 2014 to July 6, 2015
12.800	Air Force Defense Research Sciences Program	SP0022325-PROJ0007152 (the University received award funds via a pass-through from Northwestern University)	January 15, 2014 to April 30, 2015
12.800	Air Force Defense Research Sciences Program	FA9550-11-1-0062	July 15, 2011 to January 14, 2016
47.070	Computer and Information Science and Engineering	CNS-1419152	October 1, 2014 to September 30, 2017
81.049	Office of Science Financial Assistance Program	DE-SC0001091	August 1, 2009 to April 30, 2015
81.132	Geologic Sequestration Site Characterization	DE-FE0001941	December 8, 2009 to September 30, 2014
81.134	Industrial Carbon Capture and Storage (CCS) Application	FE0001941	December 8, 2009 to September 30, 2014
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	LOA# 1, 1 R01 EB015007-01,02	May 1, 2012 to April 30, 2015

CFDA No.	CFDA Title	Award Number	Award Year
93.838	Lung Diseases Research	5R01HL117164-01A1,02,03	August 15, 2013 to May 31, 2017

Recommendations:

The University should:

- Strengthen controls to ensure that it updates and maintains accurate and complete property records.
- Strengthen controls to ensure that it adequately safeguards its equipment to prevent loss, damage, or theft.
- Strengthen controls over its physical inventory, and follow up on equipment items identified as missing during its physical inventory.

Views of Responsible Officials and Corrective Action Plan:

The University concurs with the finding.

Management at The University of Texas at Austin is committed to ensuring the overall financial integrity relative to inventory oversight. Several steps will be taken by the University to demonstrate our commitment to enhancing inventory controls. The reorganization and revision of the Handbook of Business Procedures (HBP) will increase the utility of the document and afford central inventory a cleaner compliance source in which to direct stakeholders to. Formalized training courses will be created and taught by central inventory in order to better align department processes and procedures with the HBP. Central inventory will also pursue additional opportunities to reach out to the university's business officers to further emphasize the importance of inventory compliance. Inventory Services will continuously seek to identify and implement policy improvements to ensure adequate controls over property management.

Implementation Date: August 2016

Responsible Person: Kristen Walker

Reference No. 2015-135

Period of Availability of Federal Funds

Period of Performance

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Period of Availability of Federal Funds

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

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

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

The University of Texas at Austin (University) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. For 1 (2 percent) of 49 transactions tested, the University did not incur the cost within the funding period and did not liquidate the obligation associated with the cost within the required time frame. The University incurred the \$89 obligation 63 days after the end of the funding period, and it liquidated the obligation 93 days after the end of the funding period. The University asserted that it posted the transaction to the account due to an accounting system error. The federal contract those costs were associated with included a clause which waived entitlement of residual dollars up to \$500 at the time of project close-out for either the sponsor or the University. Those costs were within that residual clause threshold; therefore, there are no questioned costs.

In addition, for 20 (63 percent) of 32 adjustments tested, the University did not make those adjustments within 90 days after the end of the period of availability. It made those adjustments between 97 and 337 days after the period of availability. For 19 of those adjustments, in December 2014 the University’s Applied Research Laboratories identified an error in the allocation of fringe benefits for a large number of employees. The Applied Research Laboratories corrected and reallocated the fringe benefits in its accounting system, and those corrections were then transferred to the University’s accounting system, which caused an additional delay in the recording of the adjustments. As a result, those adjustments caused a delay in the close out of those grants and caused delays in the processing of other adjustments. The remaining adjustment was delayed due to the lack of departmental approval on a voucher in the University’s accounting system. All costs associated with those adjustments were otherwise allowable; therefore, there were no questioned costs.

Not properly closing out awards increases the risk that unallowable costs could be charged to federal awards.

Period of Performance

A non-federal entity may charge to the federal award only allowable costs incurred during the period of performance and any costs incurred before the federal awarding agency or pass-through entity made the federal award that were authorized by the federal awarding agency or pass-through entity (Title 2, CFR, Section 200.309).

The University’s *Hand book of Business Procedures*’ travel section prohibits reimbursement of (1) gratuities on non-local accounts, (2) food costs incurred at the duty headquarters unless the expenses are mandatory, and (3) non-food items on a meal receipt.

For 3 (17 percent) of 18 transactions tested, the University incurred unallowable transactions prior to the period of performance for the federal award, and it included those transactions in other preaward costs. The University reimbursed a total of \$155 for gratuity included in taxi fares, food items purchased at duty headquarters on the day of travel, and non-food items on a meal reimbursement. The University reviewed and approved the travel reimbursement requests; however, that review was not sufficient to identify the unallowable costs. After auditors brought those errors to the University’s attention, it returned the funds to the federal awarding agency; therefore, there were no questioned costs.

Not properly reviewing and approving transactions increases the risk that the University could charge unallowable costs to federal awards.

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

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.000	U.S. Department of Defense	N00024-07-D-6200-0616 CLN 0003 ACN AA	January 28, 2014 to January 27, 2015
12.000	U.S. Department of Defense	N00024-07-D-6200-0468 CLN 0001 ACN AA AB	June 5, 2012 to December 4, 2014

UNIVERSITY OF TEXAS AT AUSTIN

CFDA No.	CFDA Title	Award Number	Award Year
12.000	U.S. Department of Defense	N00024-07-D-6200-0534 CLN 0003 ACN AA	May 10, 2013 to May 31, 2015
12.000	U.S. Department of Defense	N00024-07-D-6200-0628 CLN 0003 ACN AA	April 17, 2014 to April 16, 2015
12.000	U.S. Department of Defense	N00024-07-D-6200-0582 CLN 0003 ACN AA	August 27, 2013 to August 26, 2014
12.000	U.S. Department of Defense	N00024-07-D-6200-0533 CLN 0003 ACN AA	April 4, 2013 to September 30, 2014
12.000	U.S. Department of Defense	N00024-07-D-6200-0455 CLN 0003 ACN AA	August 14, 2012 to August 13, 2014
12.000	U.S. Department of Defense	N00024-07-D-6200-0650 CLN 0003 ACN AA	June 3, 2014 to September 30, 2014
12.300	Basic and Applied Scientific Research	26-0797-24-2 CLIN 4011	June 11, 2013 to July 31, 2014
12.300	Basic and Applied Scientific Research	26-0797-24-3 CLIN 4021	June 11, 2013 to July 31, 2014
12.300	Basic and Applied Scientific Research	N00024-07-D-6200/0194 CLN 0001 ACN AA	June 18, 2009 to December 30, 2014
12.300	Basic and Applied Scientific Research	N00014-06-G-0218, DO 0029	October 14, 2008 to November 13, 2014
12.910	Research and Technology Development	D11AP00263 AMD 0003	April 20, 2011 to April 19, 2014

The following award was affected by the period of performance issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.000	Department of Defense	HR0011-15-C0095	July 1, 2015 to December 31, 2015

Recommendations:

The University should:

- Strengthen its closeout process to ensure that it closes grant accounts in its accounting system within the required 90-day closeout period.
- Charge only allowable costs to federal awards within the period of performance.

Views of Responsible Officials and Corrective Action Plan:

Period of Availability

The University concurs with the finding.

The adjustments related to the ARL were a result of an error in calculating fringe benefits on their internal payroll accounting software programming. The error has been corrected and should not be a problem in the future. The University will continue to improve its processes as necessary to avoid adjustment issues within the period of availability.

Implementation Date: January 2016

Responsible Person: David G. Dockwiller

Period of Performance

The University concurs with the finding.

The department has been notified about this finding and has been provided with travel procedures and processes so that the issue does not occur in the future.

Implementation Date: January 2016

Responsible Person: David G. Dockwiller

Reference No. 2015-136

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 (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Reporting Standard Form (SF-425) to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions and requirements of key reporting elements.

Questioned Cost: \$ 0
National Aeronautics and Space Administration Nuclear Regulatory Commission U.S. Department of Defense U.S. Department of Energy

The University of Texas at Austin (University) did not ensure that it reported all information in its financial reports on the correct basis. Specifically, for 16 (27 percent) of 60 financial reports tested, the

University did not report indirect costs on a cumulative basis, as required. Instead, the University reported indirect costs on a reporting period basis. That occurred because the University relied on an outdated set of instructions for the SF-425, and those instructions did not specify that indirect costs should be reported cumulatively. The University's automated system was designed to generate the SF-425 report using an outdated form that did not report indirect costs on a cumulative basis. Therefore, additional SF-425 reports that the automated system generated also would have been reported on an outdated form and may not have been complete, depending on federal agency reporting requirements. While the University did not report indirect costs on a cumulative basis, it specified on the financial reports that the indirect costs pertained to the period for which it was reporting; therefore, the University submitted factually correct financial reports.

While the University reviews all of its financial reports prior to submitting them, that review was not sufficient to ensure that the financial reports were accurate and complete. Submitting inaccurate reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor their awards.

The issues discussed above related to the reporting of indirect costs affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA1-12-1-0018	May 7, 2012 to August 31, 2016
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA-1-13-1-0031	January 14, 2013 to August 13, 2015
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA1-11-1-0005	August 8, 2011 to August 7, 2016
12.910	Research and Technology Development	FA8650-11-1-7159, P03	September 7, 2011 to June 15, 2015
12.910	Research and Technology Development	N66001-14-2-4051; UTA14-001109	September 1, 2014 to December 31, 2015
43.001	Science	NNX11AE42G	June 1, 2011 to May 31, 2015
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	NRC-HQ-13-G-38- 0029	August 1, 2013 to July 31, 2017
81.086	Conservation Research and Development	DE-EE0005763/0004	September 1, 2013 to November 30, 2016
81.089	Fossil Energy Research and Development	DE-FE0023919/ 0002	October 1, 2014 to September 30, 2018

Recommendation:

The University should use the most current federal reporting instructions and forms and report cumulative indirect costs on its SF-425 reports.

Views of Responsible Officials and Corrective Action Plan:

The University concurs with the finding.

The template for the SF-425 has been updated both internally and on UT Direct website to reflect the current rendition of the form.

Implementation Date: January 2016

Responsible Person: David G. Dockwiller

University of Texas at Dallas

Reference No. 2015-137

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

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs (Payroll)

As a general policy, the National Science Foundation (NSF) limits salary compensation for senior project personnel to no more than two months of their regular salary in any one year. That limit includes salary compensation received from all NSF-funded grants. Effort must be documented in accordance with the applicable cost principles. If anticipated, any compensation for such personnel in excess of two months must be disclosed in the proposal budget, justified in the budget justification, and specifically approved by NSF in the award notice (National Science Foundation *Grant Proposal Guide*, Chapter II, Section C(2)(g)).

Questioned Cost: \$ 28

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

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

For 1 (3 percent) of 39 payroll transactions tested that were subject to salary restrictions, the University of Texas at Dallas (University) did not comply with salary restrictions for key personnel. Specifically, the University paid more than two months of an employee’s salary from an NSF grant and, therefore, did not comply with the NSF restriction that no more than two month’s regular salary may be attributed to NSF grants. After auditors brought that error to the University’s attention, it removed the excess salary from the federal grant account; therefore, there were no questioned costs. Although the University’s Office of Sponsored Projects reviews grant proposal budgets for compliance with salary restrictions for federal awards, the University did not have a documented process to monitor compliance with salary restrictions on a recurring basis.

In addition, for 12 (20 percent) of 60 payroll transactions tested, the University did not maintain documentation of review and approval for some employees’ appointments to federal awards. The University had three different methods for establishing personnel appointments to federal awards, including a fiscal budgeting process, a spreadsheet for summer appointments, and personnel action forms. All three methods required review and approval from the Office of Post Award Management. For the 12 errors identified, the University used the fiscal budgeting process for personnel appointments and did not have evidence of review and approval from the Office of Post Award Management. Without consistent documentation of employee appointments to federal awards, the University could incur unallowable payroll costs.

Direct Costs (Non-payroll)

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

UNIVERSITY OF TEXAS AT DALLAS

Two (3 percent) of 67 direct cost transactions tested at the University were unallowable. Specifically, the University reimbursed \$28 in gratuity charges included in taxi fares as part of two travel reimbursements. The University reviewed and approved travel reimbursement requests; however, that review was not sufficient to identify the unallowable costs. The University's Reimbursement and Non Reimbursement for Other Travel Expenses policy excludes reimbursement of tips or gratuities of any kind. For one additional transaction, the University processed a transfer without documented approval from the Office of Post Award Management. That occurred because the University did not consistently follow its review and approval process to ensure that transactions complied with applicable requirements. Not properly reviewing and approving transactions increases the risk that the University could charge unallowable costs to federal awards.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
11.000	U.S. Department of Commerce	UTA13-000444 (the University received the funds as a pass-through from the University of Texas at Austin)	April 1, 2013 to December 31, 2015	\$ 0
12.000	U.S. Department of Defense	SC1313401 (the University received the funds as a pass-through from Charles River Analytics, Inc.)	November 8, 2013 to December 31, 2014	0
12.300	Basic and Applied Scientific Research	2145 (the University received the funds as a pass-through from Princeton University)	July 1, 2013 to February 14, 2016	0
12.300	Basic and Applied Scientific Research	N00014-14-1-0152	January 1, 2014 to December 31, 2017	0
12.420	Military Medical Research and Development	W81XWH-11-2-0194	June 1, 2014 to October 29, 2015	0
12.800	Air Force Defense Research Sciences Program	SO#10220-001 (the University received the funds as a pass-through from COBHAM Plc.)	October 21, 2011 to December 31, 2014	0

UNIVERSITY OF TEXAS AT DALLAS

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>	<u>Questioned Costs</u>
47.041	Engineering Grants	EEC-1338735	September 1, 2013 to August 31, 2016	0
47.049	Mathematical and Physical Sciences	1460654	March 1, 2015 to February 28, 2018	12
47.050	Geosciences	1541227	July 1, 2013 to May 31, 2017	0
47.070	Computer and Information Science and Engineering	CNS-1348558	February 1, 2014 to January 31, 2015	16
47.070	Computer and Information Science and Engineering	IIS-0845484	June 1, 2009 to August 31, 2016	0
47.075	Social, Behavioral, and Economic Sciences	SES-1230091	September 15, 2012 to August 31, 2015	0
47.075	Social, Behavioral, and Economic Sciences	BCS-1124479	April 1, 2013 to February 29, 2016	0
93.173	Research Related to Deafness and Communication Disorders	R01DC010433	April 1, 2010 to March 31, 2016	0
93.173	Research Related to Deafness and Communication Disorders	300255 (the University received the funds as a pass-through from MGH Institute of Health Professions)	December 1, 2013 to November 30, 2015	0
93.310	Trans-NIH Research Support	1 DP2 HD080349	September 30, 2013 to August 31, 2018	0
Total Questioned Costs				\$ 28

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 provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University did not consistently maintain high-profile user accounts at the application level. Specifically, one user had inappropriate access to the PeopleSoft financials and human resources applications. As part of its review process, the University identified the inappropriate access and removed that user's access during the audit. In addition, one developer for the Effort Certification System had both database administrator access and server administrator access.

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

Recommendations:

The University should:

- Comply with all applicable salary restrictions for federal awards.
- Establish and implement a monitoring control to ensure compliance with salary restrictions.
- Strengthen its controls over personnel appointments to federal awards.
- Charge only allowable costs to federal awards.
- Strengthen its review and approval process to ensure that transactions that it charges to federal awards comply with policies and are allowable.
- Limit access to its information systems based upon users' job responsibilities.

Views of Responsible Officials and Corrective Action Plan:

Allowable Cost

UT Dallas agrees with the recommendations to improve controls over the monitoring of salary restrictions, personnel appointments and allowable cost review. In September 2015, the University developed guidelines to aid departments in the financial management of an award. These guidelines outline the specific requirements and follow the cost accounting standards as prescribed in OMB 2 CFR Part 200 (Uniform Guidance) and University policies. The guidelines will help eliminate inconsistent accounting treatment of project related costs and the potential of unallowable costs being charged to federally funded projects.

Salary Restrictions – the University will develop a process to monitor the National Science Foundation (NSF) expenditures to ensure there are no employees that exceed the salary restrictions. The process will include monthly reports and documentation of reviews.

Personnel Appointments – the University will strength its controls over personnel appointments by ensuring that appropriate approvals are obtained for all appointments on federal awards. This process will help build an institution-wide awareness of associated procedures.

The University has implemented improvements to the review and approval process for expenses to ensure sufficient documentation, justification and allowability as specified in the Uniform Guidance.

Implementation Date: April 2016

Responsible Person: Kelly McKinney

General Controls

UT Dallas agrees with the recommendation to improve controls over information systems access. The University conducts formal user access reviews of PeopleSoft financials and human resources applications on a quarterly basis. These reviews are in place to ensure that user access is based on current job duties. For high profile users, a same day alerts will be implemented for any access changes allowing for up-to-date access review.

Implementation Date: March 2016

Responsible Person: Jai Chitkara

Reference No. 2015-138

Cash Management

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Interest on Advances

A recipient must maintain advances of federal funds in interest-bearing accounts unless (1) the recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22(k)). For 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 must 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 must comply with CMIA as it pertains to interest (Title 2, CFR, Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, specifies that a 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: \$ 44,090 U.S. Department of Defense
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The University of Texas at Dallas (University) did not have a process to track, calculate, and remit interest earned on federal funds by individual federal award. Instead, the University tracked its cash position at an aggregate level for all federal awards combined, rather than at the individual federal award level. Additionally, the University did not have policies and procedures governing its management of advances of federal funds.

The University identified two federal awards for which it had potentially received advances of federal funds according to its records. Auditors determined that both of those federal awards required that advances of funds be maintained in interest-bearing accounts. Auditors also determined that the University received federal funds in advance of making expenditures for both of those federal awards; one of those federal awards had advances in excess of expenditures for a total of 82 calendar days during fiscal year 2015. However, auditors determined that interest would not have exceeded the administrative cost allowance of \$250 on funds the University received in advance of expenditures for those two federal awards; therefore, the University was not required to remit interest to the federal government.

Because the University did not track federal awards with interest-bearing requirements individually, auditors could not determine whether any other federal awards earned interest that would need to be remitted to the federal government. If the University does not track advances in interest-bearing accounts by federal award, it cannot earn or remit to the federal government interest exceeding \$250 per year on funds it received in advance of expenditures.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-11-2-0194	September 30, 2011 to October 29, 2015
12.420	Military Medical Research and Development	W81XWH-11-2-0195	September 30, 2011 to October 29, 2015

Cash Management

A state must minimize the time between the drawdown of federal funds from the federal government and the disbursement of those funds for federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a state’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs (Title 31, CFR, Section 205.33(a)).

To minimize the time between drawdown of federal funds and disbursement, the University operates on a reimbursement basis under which it bases its drawdowns of federal funds only on expended amounts.

The University did not always minimize the time between the drawdown of federal funds and the disbursement of those funds. Specifically, for 3 (8 percent) of 40 drawdowns tested, the University either (1) did not have sufficient support to demonstrate that it followed its draw process or (2) drew down funds that were not supported by paid expenditures. Specifically:

- The University did not have sufficient documented support for the amounts it requested for two of those drawdowns. The University requested a total of \$44,090 in those two drawdowns that was not supported by paid expenditures. Therefore, that amount was considered questioned costs.
- The University requested and drew down \$28,815 more than the paid expenditures recorded in its financial system, PeopleSoft, for one of those drawdowns. However, the University subsequently identified that error and reduced the amount of two subsequent drawdowns, which it processed 8 days and 49 days after the initial drawdown. Therefore, those funds were not considered questioned costs.

Those errors occurred because the University did not document its review and approval of drawdowns and reimbursement requests prior to submitting them to the appropriate federal agency or pass-through entity.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
12.300	Basic and Applied Scientific Research	N00014-14-1-0030	November 1, 2013 to October 31, 2016	\$ 0

UNIVERSITY OF TEXAS AT DALLAS

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
12.800	Air Force Defense Research Sciences Program	FA9550-12-1-0082	April 1, 2012 to September 30, 2015	32,115
12.800	Air Force Defense Research Sciences Program	FA9550-13-1-0095	March 15, 2013 to March 14, 2017	4,930
12.800	Air Force Defense Research Sciences Program	FA9550-14-1-0173	July 1, 2014 to June 30, 2017	3,002
12.800	Air Force Defense Research Sciences Program	FA9550-14-1-0119	September 1, 2014 to August 31, 2017	2,215
12.800	Air Force Defense Research Sciences Program	FA9550-14-1-0394	September 30, 2014 to September 29, 2017	1,828
Total Questioned Costs				\$ 44,090

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 provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University did not consistently maintain high-profile user accounts at the application level. Specifically, one user had inappropriate access to the PeopleSoft financials and human resources applications. As part of its review process, the University identified the inappropriate access and removed that user's access during the audit. In addition, one developer for the Effort Certification System had both database administrator access and server administrator access.

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

Recommendations:

The University should:

- Develop and implement a process to track, calculate, and remit interest it earns on federal funds by individual federal award.
- Develop and implement policies and procedures to manage advances of federal funds.
- Strengthen controls over its drawdown process to ensure that drawdowns are accurate and supported by its accounting records.
- Limit access to its information systems based upon users' job responsibilities.

Views of Responsible Officials and Corrective Action Plan:

Cash Management

UT Dallas agrees with the recommendations to improve controls over advances of federal funds and the drawdown process. The University has reviewed all listed awards to ensure that no inaccurate or

unsupported drawdowns were performed. Although no inaccurate cash requests were discovered, the University will retain improved documentation of historical drawdowns from the related federal application (Wide Area Work Flow – WAWF). This will ensure the University’s ability to retrieve and review previous cash requests.

The University will develop and implement procedures for tracking and remitting interest earned on federal funds which will include management of federal advances. New procedures will also contain guidelines for the preparation, review and approval of drawdowns to ensure accuracy.

Implementation Date: August 2016

Responsible Person: Greg Argueta

General Controls

UT Dallas agrees with the recommendation to improve controls over information systems access. The University conducts formal user access reviews of PeopleSoft financials and human resources applications on a quarterly basis. These reviews are in place to ensure that user access is based on current job duties. For high profile users, a same day alerts will be implemented for any access changes allowing for up-to-date access review.

Implementation Date: March 2016

Responsible Person: Jai Chitkara

Reference No. 2015-139

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

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

Questioned Cost: \$ 1,112
U.S. Department of Commerce
U.S. Department of Defense
U.S. Department of Health and Human Services
National Science Foundation

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

- The University did not incur costs associated with two transactions tested within the period of availability. One of those transactions was for payroll costs totaling \$488 that the University incurred 15 days after the period of availability. The other transaction comprised costs totaling \$624 that the University incurred 63 days after the period of availability, and the University liquidated those obligations 168 days after the period of availability. The costs associated with those two transactions are considered questioned costs totaling \$1,112.

- The University incurred the associated costs within the period of availability for 2 (40 percent) of 5 transactions tested; however, it did not liquidate those obligations within the required time frame. The University liquidated the obligations 106 to 161 days after the period of availability.
- The University did not make 8 (62 percent) of 13 adjustments tested within 90 days after the end of the period of availability. It made those adjustments 91 to 1,095 days after the period of availability as a result of the University's grant close-out process.

The University did not perform its grant close-out process within a reasonable time after the end of the period of availability. Specifically, the University made adjustments to federal awards and liquidated expenses more than 90 days after the period of availability because it did not close the federal grant accounts in its financial management system. The University's financial management system had automated controls to prohibit the liquidation of expenditures more than 45 days after the period of availability; however, the University routinely overrode those controls to charge expenditures to and process adjustments against federal awards.

Making expenditures and adjustments after the period of availability increases the risk that the University could spend federal funds improperly, which could affect its ability to obtain future grant funding.

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

CFDA No.	CFDA Title	Award Number	Award year	Questioned Cost
11.008	NOAA Mission-Related Education Awards	2013-2014-004 (the University received funds as a pass-through from the University of Puerto Rico at Mayaguez)	June 1, 2013 to May 31, 2014	\$ 0
12.000	Department of Defense	SC1313401	November 8, 2013 to December 31, 2014	488
12.300	Basic and Applied Scientific Research	FA8750-12-1-0188	April 24, 2012 to April 23, 2015	0
47.041	Engineering Grants	CBET-1064574	September 1, 2011 to August 31, 2014	0
47.049	Mathematical and Physical Sciences	PHY-1027781	October 1, 2010 to September 30, 2014	624
47.070	Computer and Information Science Engineering	IIP-1339941	April 1, 2013 to April 30, 2014	0
47.070	Computer and Information Science Engineering	CCF0728851	September 15, 2007 to August 31, 2012	0

UNIVERSITY OF TEXAS AT DALLAS

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award year</u>	<u>Questioned Cost</u>
47.070	Computer and Information Science Engineering	CNS-1016343	August 1, 2010 to July 31, 2014	0
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	R21NS078656 (the University received funds as a pass-through from the University of Texas Southwestern Medical Center)	September 1, 2012 to August 31, 2014	0
Total Questioned Costs				<u>\$1,112</u>

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 provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The University did not consistently maintain high-profile user accounts at the application level. Specifically, one user had inappropriate access to the PeopleSoft financials and human resources applications. As part of its review process, the University identified the inappropriate access and removed that user’s access during the audit. In addition, one developer for the Effort Certification System had both database administrator access and server administrator access.

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

Recommendations:

The University should:

- Improve its grant close-out process to ensure that it closes grant accounts in its financial management system within required time periods.
- Ensure that it incurs expenditures only during the period of availability.
- Limit access to its information systems based upon users’ job responsibilities.

Views of Responsible Officials and Corrective Action Plan:

Period Availability

UT Dallas agrees with the recommendations to improve controls over award close-outs and transactions outside the period of availability. In September 2015, the University developed period of performance guidelines to aid departments in the financial management of awards. The guidelines detail period of performance requirements for grants, contracts and sub-awards at the University. The procedure is

consistent with The Office of Management and Budget Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) – 2 CFR 200 – 200.77.

UT Dallas has developed a procedure for the financial reporting and closeout of sponsored projects. The procedure details period of performance deadlines and the implementation has improved the process of approving expenditures after the award end date as part of the project closeout.

Implementation Date: Complete

Responsible Person: Kelly McKinney

General Controls

UT Dallas agrees with the recommendation to improve controls over information systems access. The University conducts formal user access reviews of PeopleSoft financials and human resources applications on a quarterly basis. These reviews are in place to ensure that user access is based on current job duties. For high profile users, a same day alerts will be implemented for any access changes allowing for up-to-date access review.

Implementation Date: March 2016

Responsible Person: Jai Chitkara

Reference No. 2015-140

Reporting

Research and Development Cluster

Award years – May 1, 2012 to February 15, 2015; August 15, 2010 to May 14, 2016; and February 1, 2013 to March 31, 2015

Award numbers – CFDA 81.135, Advanced Research Projects Agency – Energy, DE-AR0000210; CFDA 81.049, Office of Science Financial Assistance Program, DE-FG0208ER46491; and CFDA 93.286, Discovery and Applied Research for Technological Innovations to Improve Human Health, 7R21EB014563-02

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 an award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Report Standard Form (SF-425) to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions and requirements of key reporting elements.

Questioned Cost: \$ 0

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

The University of Texas at Dallas (University) did not ensure that its financial reports were accurate and supported by applicable accounting records. Specifically, for 3 (5 percent) of 60 financial reports tested, the University did not accurately report either the cash receipts amount or the cash disbursements total, or it was unable to provide accounting support for the reported recipient share of expenditures. Those errors occurred because the University did not have a documented review and approval process to ensure that financial reports were complete and accurate, and it did not consistently maintain support for the information it used to prepare the reports.

Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

General Controls

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

The University did not consistently maintain high-profile user accounts at the application level. Specifically, one user had inappropriate access to the PeopleSoft financials and human resources applications. As part of its review process, the University identified the inappropriate access and removed that user's access during the audit. In addition, one developer for the Effort Certification System had both database administrator access and server administrator access.

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

Recommendations:

The University should:

- Develop and implement policies and procedures for reviewing and approving financial reports to ensure that financial reports are accurate and supported by accounting records.
- Maintain supporting documentation for the information it uses to prepare financial reports.
- Limit access to its information systems based upon users' job responsibilities.

Views of Responsible Officials and Corrective Action Plan:

Reporting

UT Dallas agrees with the recommendations to improve controls over the review and approval of financial reports and maintaining report supporting documentation. A financial reporting and closeout of sponsored projects procedure has been developed to ensure the timely processing of all final transactions. In addition, procedures for the preparation, review, approval and retention of financial reports and supporting documentation will be implemented.

Implementation Date: August 2016

Responsible Person: Greg Argueta

General Controls

UT Dallas agrees with the recommendation to improve controls over information systems access. The University conducts formal user access reviews of PeopleSoft financials and human resources applications on a quarterly basis. These reviews are in place to ensure that user access is based on current job duties. For high profile users, a same day alerts will be implemented for any access changes allowing for up-to-date access review.

Implementation Date: March 2016

Responsible Person: Jai Chitkara

University of Texas Health Science Center at Houston

Reference No. 2015-142

Cash Management
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
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

Interest

A recipient must maintain advances of federal funds in interest-bearing accounts unless (1) the recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22(k)). For those entities for which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts must be remitted annually to the U.S. Department Health and Human Services. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense. State universities and hospitals must comply with CMIA as it pertains to interest (Title 2, CFR, Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires a 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. A 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: \$ 328.31
 U.S. Department of Defense

The University of Texas Health Science Center at Houston (Health Science Center) did not remit to the federal government interest earned on federal funds received in advance of program expenses. The Health Science Center’s process was to calculate and remit interest earned on individual awards if that interest exceeded the \$250 allowance for administrative costs. As a result of that process, the Health Science Center did not remit the interest it earned on advances of federal funds if individual awards earned less than \$250 in interest. The Health Science Center should have remitted \$328.31 in interest associated with 19 federal awards, excluding the \$250 allowance for administrative expense, to the federal government. Auditors calculated the amount of interest that the Health Science Center should have remitted using interest rates that the Health Science Center provided.

The following awards were affected by the issue described above:

CFDA No.	CFDA Title	Award Number	Award Year	Interest Earned
12.420	Military Medical Research and Development	W81XWH-08-2-0150	August 1, 2008 to July 31, 2015	\$ 42.81
12.420	Military Medical Research and Development	W81XWH-08-2-0131	August 1, 2008 to July 31, 2015	41.86

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Interest Earned
12.420	Military Medical Research and Development	W81XWH-08-2-0134	August 1, 2008 to July 31, 2015	58.51
12.420	Military Medical Research and Development	W81XWH-08-2-0135	August 1, 2008 to July 31, 2015	131.57
12.420	Military Medical Research and Development	W81XWH-11-2-0056	December 1, 2010 to November 30, 2015	65.04
12.420	Military Medical Research and Development	W81XWH-11-1-0023	February 15, 2011 to February 14, 2015	17.88
12.420	Military Medical Research and Development	W81XWH-11-1-0460	June 1, 2011 to November 30, 2015	36.13
12.420	Military Medical Research and Development	W81XWH-11-1-0240	September 1, 2011 to February 28, 2015	28.14
12.420	Military Medical Research and Development	W81XWH-12-1-0014	April 1, 2012 to May 31, 2015	8.46
12.420	Military Medical Research and Development	W81XWH-08-2-0142	August 1, 2008 to December 31, 2014	0.10
12.420	Military Medical Research and Development	W81XWH-12-1-0504	September 15, 2012 to September 14, 2015	0.21
12.420	Military Medical Research and Development	W81XWH-12-1-0481	September 30, 2012 to September 29, 2015	13.11
12.420	Military Medical Research and Development	W81XWH-12-1-0612	September 30, 2012 to March 29, 2015	7.88
12.420	Military Medical Research and Development	W81XWH-13-1-0190	July 1, 2013 to June 30, 2016	3.99

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Interest Earned
12.420	Military Medical Research and Development	W81XWH-13-1-0452	September 23, 2013 to September 22, 2016	1.10
12.420	Military Medical Research and Development	W81XWH-13-1-0489	September 30, 2013 to September 29, 2016	0.15
12.420	Military Medical Research and Development	W81XWH-14-2-0016	July 5, 2014 to July 4, 2016	0.16
12.420	Military Medical Research and Development	W81XWH-14-1-0593	September 29, 2014 to September 28, 2016	9.52
12.420	Military Medical Research and Development	W81XWH-14-1-0112	September 15, 2014 to September 14, 2016	111.69
Less allowance for interest that the Health Science Center can retain				(\$250.00)
Total Questioned Costs				\$328.31

Other Compliance Requirements

Although the general control weaknesses described below apply to activities allowed and unallowed, allowable costs/cost principles, and equipment and real property management, auditors identified no compliance issues regarding those compliance requirements.

General Controls

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

The Health Science Center did not consistently maintain user accounts for its information systems. Specifically, auditors identified the following:

- Two user accounts had inappropriate access to the PeopleSoft Financials and Human Resources servers. The Health Science Center asserted that it had disabled the users' access to those accounts, but it could not provide documentation showing that it had disabled that access upon the termination of those users' employment.
- One developer with the vendor for the Health Science Center's time and effort certification system had both server administrator access and database administrator access.

Those errors occurred because (1) the Health Science Center did not conduct formal periodic reviews of user access for the servers and (2) the Health Science Center's vendor did not conduct formal periodic review of its servers and databases. Allowing users inappropriate or excessive access increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Health Science Center should:

- Revise its process to remit interest earned in excess of the administrative cost allowance on all federal research and development award advances per year.
- Consistently limit access to its information systems based on users' job responsibilities, and conduct periodic reviews to identify inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

The University will remit interest earned in excess of the administrative cost allowance on all federal research and development award advances per year. We have revised our interest remission process accordingly. In addition, a total of \$328.31 will be refunded to the federal government. Consistent with the audit recommendation, the two user accounts have been removed from the LDAP instance that manages only shell access to the PeopleSoft HCM and FMS servers. Access to these servers requires access to the university network which is granted by the Enterprise LDAP instance.

When an employee is terminated in the HCM system, their user id is locked immediately in the enterprise LDAP directory. With no access to the network, the PeopleSoft HCM and FMS servers are inaccessible. Additionally, the university will request that the vendor of its time and effort certification system designate separate individuals as server administrator and database administrator so these duties are segregated.

Implementation Date: February 2016

Responsible Person: Ronald Perez

Reference No. 2015-143

Period of Availability of Federal Funds

(Prior Audit Issue 2014-157)

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Questioned Cost: \$ 0

U.S. Department of Health
and Human Services

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

- For 1 (2 percent) of 60 transactions tested, the Health Science Center did not incur the cost within the funding period and did not liquidate the obligation within 90 days after the end of the funding period. The Health Science Center incurred the \$155 cost associated with that transaction 15 days after the end

of the funding period and liquidated the obligation 102 days after the end of the funding period. The Health Science Center subsequently reversed that cost; therefore, it was not considered a questioned cost.

- For 3 (5 percent) of 60 transactions tested, the Health Science Center incurred the costs within the period of availability; however, it did not liquidate the obligations within required time frames. It liquidated those obligations between 91 and 172 days after the end of the funding period.

The issues discussed above increase the risk of non-compliance with period of availability requirements in applicable laws, regulations, and the provisions of federal grant agreements.

In addition, for 28 (47 percent) of 60 transactions tested, the Health Science Center recorded federal expenditures that it incurred outside of the period of availability. That occurred because the Health Science Center had requested and expected to receive extensions on those awards; however, it did not receive extensions prior to expending the funds. The Health Science Center received those awards as pass-throughs from other non-federal entities. While the Health Science Center identified the costs as federal and charged them to federal award accounts in its financial accounting system, it asserted that it had not received federal reimbursement for those expenditures; therefore, there were no questioned costs. At the time of the audit, the transactions discussed above were associated with federal awards that were 91 to 215 days past the end of their funding periods. The Health Science Center initially paid for those transactions with institutional funds with the intent of seeking federal reimbursement if and when it received award extensions. However, the significant delays in securing those extensions and the potential to not receive extensions for certain awards increase the risk of non-compliance with period of availability requirements and/or federal expenditure reporting errors.

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

CFDA No.	CFDA Title	Award Number	Award Year
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	HHSC 529-14-0121-00001	May 5, 2014 to October 31, 2014
93.855	Allergy and Infectious Diseases Research	1R41AI093261-01	September 1, 2011 to June 30, 2014
93.728	ARRA - Strategic Health IT Advanced Research Projects (SHARP)	90TR0004	April 1, 2010 to November 30, 2014
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	CTG-ILA-UNI/N130000005	September 29, 2012 to September 29, 2014

General Controls

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

The Health Science Center did not consistently maintain user accounts for its information systems. Specifically, auditors identified the following:

- Two user accounts had inappropriate access to the PeopleSoft Financials and Human Resources servers. The Health Science Center asserted that it had disabled the users' access to those accounts, but it could not provide documentation showing that it had disabled that access upon the termination of those users' employment.
- One developer with the vendor for the Health Science Center's time and effort certification system had both server administrator access and database administrator access.

Those errors occurred because (1) the Health Science Center did not conduct formal periodic reviews of user access for the servers and (2) the Health Science Center's vendor did not conduct formal periodic review of its servers and databases. Allowing users inappropriate or excessive access increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Health Science Center should:

- Strengthen its closeout process to ensure that it closes grant accounts in its accounting system within the required 90-day closeout period.
- Strengthen processes to reduce or eliminate the time between original award end dates and the dates on which it secures award extensions.
- Consistently limit access to its information systems based on users' job responsibilities, and conduct periodic reviews to identify inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

The University will strengthen its closeout process, including additional oversight and staff training to ensure that grants are closed out within the 90-day closeout period.

The University will maintain more proactive communication between its pre- and post-award teams and departmental administrators to improve timeliness and follow-up on award extensions.

Consistent with the audit recommendation, the two user accounts have been removed from the LDAP instance that manages only shell access to the PeopleSoft HCM and FMS servers. Access to these servers requires access to the university network which is granted by the Enterprise LDAP instance. When an employee is terminated in the HCM system, their user id is locked immediately in the enterprise LDAP directory. With no access to the network, the PeopleSoft HCM and FMS servers are inaccessible. Additionally, the university will request that the vendor of its time and effort certification system designate separate individuals as server administrator and database administrator so these duties are segregated.

Implementation Date: February 2016

Responsible Person: Ronald Perez

Reference No. 2015-144

Reporting

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

Questioned Cost: \$ 0

U.S. Department of Health and Human Services

The University of Texas Health Science Center at Houston (Health Science Center) did not ensure that its financial reports were accurate and complete. Specifically, the Health Science Center incorrectly reported the accounting basis for 7 (28 percent) of 25 financial reports tested. While the Health Science Center prepared the financial reports with the correct accrual accounting basis, it asserted that the federal reporting system selected the cash basis of accounting incorrectly, and the Health Science Center did not change the applicable basis of accounting prior to submitting the financial reports.

In addition, for 10 (40 percent) of 25 financial reports tested, the Health Science Center did not report indirect costs on a cumulative basis, as required. Instead, the Health Science Center reported indirect costs on an annual basis because it relied on an outdated set of instructions for the SF-425, which did not specify that indirect costs should be reported cumulatively. While the Health Science Center did not report costs on a cumulative basis, it specified on the financial reports that the indirect costs pertained to the current year; therefore, the Health Science Center submitted factually correct financial reports.

While the Health Science Center reviewed its financial reports prior to submitting them, that review was not sufficient to ensure that the financial reports were accurate and complete. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor their awards.

The issues above affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
93.110	Maternal and Child Health Federal Consolidated Programs	5T73MC22236-04-00	July 1, 2011 to June 30, 2015
93.136	Injury Prevention and Control Research and State and Community Based Programs	5R01CE002135-03	September 30, 2012 to September 29, 2015
93.297	Teenage Pregnancy Prevention Program	5TP1AH000072-05	September 1, 2014 to August 31, 2015
93.307	Minority Health and Health Disparities Research	5U24MD006941-05	September 20, 2011 to June 30, 2016

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year
93.307	Minority Health and Health Disparities Research	5R24MD007975-03	April 25, 2013 to December 31, 2015
93.610	Health Care Innovation Awards (HCIA)	1C1CMS331044-03-00	July 1, 2012 to June 30, 2016
93.837	Cardiovascular Diseases Research	5UM1HL087318-09	March 1, 2012 to February 28, 2019
93.838	Lung Diseases Research	5P01HL114457-03	June 1, 2013 to May 31, 2018
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS043127-14	December 1, 2012 to November 30, 2015
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS087541-02	April 1, 2014 to March 31, 2018
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5P50NS044227-10	September 30, 2008 to April 30, 2015
93.855	Allergy and Infectious Diseases Research	1R56AI110432-01	April 1, 2014 to January 14, 2015
93.865	Child Health and Human Development Extramural Research	5U10HD040545-16	April 1, 2011 to March 31, 2016

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 provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The Health Science Center did not consistently maintain user accounts for its information systems. Specifically, auditors identified the following:

- Two user accounts had inappropriate access to the PeopleSoft Financials and Human Resources servers. The Health Science Center asserted that it had disabled the users' access to those accounts, but it could not provide documentation showing that it had disabled that access upon the termination of those users' employment.
- One developer with the vendor for the Health Science Center's time and effort certification system had both server administrator access and database administrator access.

Those errors occurred because (1) the Health Science Center did not conduct formal periodic reviews of user access for the servers and (2) the Health Science Center's vendor did not conduct formal periodic review of its servers and databases. Allowing users inappropriate or excessive access increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Health Science Center should:

- Strengthen controls to ensure that the federal financial reports that it submits are complete and accurate.
- Consistently limit access to its information systems based on users' job responsibilities, and conduct periodic reviews to identify inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

The University will strengthen controls to ensure that the federal financial reports it submits are complete and accurate. We have revised procedures to ensure that the federal financial reports are marked as accrual basis and that indirect costs are reported on a cumulative basis.

Consistent with the audit recommendation, the two user accounts have been removed from the LDAP instance that manages only shell access to the PeopleSoft HCM and FMS servers. Access to these servers requires access to the university network which is granted by the Enterprise LDAP instance. When an employee is terminated in the HCM system, their user id is locked immediately in the enterprise LDAP directory. With no access to the network, the PeopleSoft HCM and FMS servers are inaccessible. Additionally, the university will request that the vendor of its time and effort certification system designate separate individuals as server administrator and database administrator so these duties are segregated.

Implementation Date: February 2016

Responsible Person: Ronald Perez

Reference No. 2015-145

Subrecipient Monitoring

Special Tests and Provisions – R3 – Subrecipient Monitoring

(Prior Audit Issue 2014-158)

Research and Development Cluster

Research and Development Cluster – ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Preaward Requirements

At the time of a subaward, the pass-through entity must identify to the subrecipient the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, the name of the federal awarding agency, and applicable compliance requirements (U.S. Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d) and Title 2, Code of Federal Regulations (CFR), Section 200.331(a)).

Questioned Cost: \$ 0

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

Pass-through entities must take steps to ensure that the subrecipient is not suspended or debarred (Title 2, CFR, Section 215.13; Title 2, CFR, Section 200.213; and Title 2, CFR, Section 180.300). Beginning October 1, 2010, an agency may not make an award to an entity until it has obtained a valid Data Universal Numbering System (DUNS) number for that entity (Title 2, CFR, Sections 25.105 and 25.205).

For 5 (13 percent) of 39 subawards tested, the University of Texas Health Science Center at Houston (Health Science Center) did not accurately provide or obtain all required information prior to awarding the subaward. The Health Science Center (1) did not always provide the correct CFDA number and compliance requirements imposed on the subrecipient, (2) did not maintain documentation showing that it obtained a DUNS number for a non-American Recovery and Reinvestment Act (ARRA) subaward prior to issuing that subaward, and (3) did not obtain a suspension and debarment certification from a subrecipient. The Health Science Center used the Federal Demonstration Partnership (FDP) subaward template for its subaward agreement with subrecipients; however, it did not consistently or accurately complete all fields in that template. In addition to using the FDP template for its subaward agreements, the Health Science Center uses other attachments for the DUNS number and suspension and debarment certification; however, it did not consistently use those attachments.

Providing inadequate federal award information to subrecipients and not obtaining all required information could lead to improper reporting of federal awards. In addition, not determining whether subrecipients are suspended or debarred increases the risk of subawards being made to suspended or debarred entities.

During-the-award Monitoring

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

Effective December 26, 2014, the *Uniform Grant Guidance* requires pass-through entities to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring (Title 2, CFR, Section 200.331(b)). The pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring must include (1) reviewing financial and performance reports, (2) following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies, and (3) issuing a management decision for audit findings (Title 2, CFR, Section 200.331(d)). Depending on the pass-through entity's

assessment of risk posed by the subrecipient, the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals: (1) providing subrecipients with training and technical assistance on program-related matters, (2) performing on-site reviews of the subrecipient's program operations, and (3) arranging for agreed-upon procedures engagements (Title 2, CFR, Section 200.331(e)).

For 5 (20 percent) of 25 subawards tested, the Health Science Center did not consistently monitor subrecipient activities during the subaward periods to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal requirements. Specifically, for those five subawards, the Health Science Center reviewed and approved subrecipient invoices prior to payment; however, those invoices did not contain sufficient detail for the Health Science Center to determine whether the expenditures were for allowable activities and costs or whether the expenditures complied with other federal and subaward requirements. For example, one subrecipient invoice included a \$16,143 line item labeled "Outside Services"; however, the subaward budget did not include costs for that category and there was no further information on the invoice regarding the type of expenses that invoice covered.

In addition, the Health Science Center did not document its assessment of the risk of noncompliance for each subrecipient and its determination of the appropriate level of subrecipient monitoring. The Health Science Center asserted that it placed subrecipients into two risk categories: low-risk or high-risk. The Health Science Center also asserted that it would review reimbursement invoices for low-risk subrecipients, and that it would review financial statements and determine whether any additional monitoring procedures were necessary for high-risk subrecipients. However, the Health Science Center did not document that process, and auditors could not determine the level of risk or the monitoring activities identified as necessary for all 14 subawards tested that were issued under the *Uniform Grant Guidance*.

Not assessing risk, not identifying appropriate monitoring activities, and having insufficient monitoring procedures for subrecipients increases the risk that the Health Science Center would not detect subrecipients' noncompliance with federal requirements.

Subrecipient Audits

The Health Science Center must ensure that a subrecipient that expends \$500,000 or more in federal awards during the subrecipient's fiscal year obtains an OMB Circular A-133 Single Audit and provides a copy of the audit report to the Health Science Center within nine months of the end of the subrecipient's audit. In addition, the Health Science Center must issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and follow up to ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Health Science Center must take appropriate action using sanctions (OMB Circular A-133 Subpart D, Section 400(d), and Title 2, CFR, Section 200.331(f)).

For 6 (15 percent) of 39 subawards tested, the Health Science Center did not obtain the required subrecipient Single Audit report. The Health Science Center's process was to send confirmation letters to its subrecipients regarding whether they had obtained the required audit and whether there were any material findings. However, the Health Science Center did not consistently send that letter to its subrecipients.

Not ensuring that subrecipients obtain required audits increases the risk that deficiencies could go unaddressed.

Special Tests and Provisions – R3 – Subrecipient Monitoring

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

For 1 (50 percent) of 2 Recovery Act subawards tested, the Health Science Center did not identify Recovery Act information when it disbursed Recovery Act funds to that subrecipient. The Health

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

Science Center’s process was to include that information in a letter that it provided to subrecipients at the time of disbursement. However, the Health Science Center did not consistently send that letter.

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

The following awards were affected by the issues discussed above.

CFDA No.	CFDA Title	Award Number	Award Year
84.305	Education Research, Development and Dissemination	R305A140386-15	July 1, 2014 to June 30, 2018
93.113	Environmental Health	5R01ES023563-02	August 11, 2014 to April 30, 2019
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	3U48DP001949-05S1	September 30, 2010 to September 29, 2015
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	5U45ES019360-05	August 17, 2010 to July 31, 2015
93.242	Mental Health Research Grants	5R01MH100021-03	April 1, 2013 to February 28, 2018
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance	15-2772 11520-FB44 (the Health Science Center received funds as a pass-through from the University of South Carolina)	September 30, 2014 to September 29, 2015
93.297	Teenage Pregnancy Prevention Program	5TP1AH000072-04-01	September 1, 2010 to August 31, 2014
93.297	Teenage Pregnancy Prevention Program	5TP1AH000072-05	September 1, 2014 to August 31, 2015
93.361	Nursing Research	5R01NR013707-03	June 7, 2013 to March 31, 2018
93.393	Cancer Cause and Prevention Research	5R21CA181901-02	July 15, 2014 to June 30, 2016
93.535	Affordable Care Act (ACA) Childhood Obesity Research Demonstration	5U18DP003367-04	September 30, 2014 to September 29, 2015
93.728	ARRA - Strategic Health IT Advanced Research Projects (SHARP)	90TR0004	April 1, 2010 to November 20, 2014
93.837	Cardiovascular Diseases Research	5R01HL102830-04	July 7, 2010 to May 31, 2015

CFDA No.	CFDA Title	Award Number	Award Year
93.837	Cardiovascular Diseases Research	5UM1HL087318-09	March 1, 2012 to February 28, 2019
93.837	Cardiovascular Diseases Research	5R01HL109597-05	August 22, 2011 to June 30, 2016
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS087541-02	April 1, 2014 to March 31, 2018
93.855	Allergy and Infectious Diseases Research	5P01AI077774-05	August 1, 2009 to July 31, 2015
93.855	Allergy and Infectious Diseases Research	1R01AI110432-01A1 / RAI110432B	January 15, 2015 to December 31, 2019
93.859	Biomedical Research and Research Training	5R01GM060419-16	September 20, 2013 to May 31, 2017
93.865	Child Health and Human Development Extramural Research	5R01HD067694-05	April 1, 2011 to March 31, 2016

Recommendations:

The Health Science Center should:

- Strengthen its procedures to ensure that it consistently (1) accurately provides all required award information to subrecipients and (2) obtains all required information, including a DUNS number and suspension and debarment certification, from subrecipients prior to making a subaward.
- Document its assessment of the risk of noncompliance for each subrecipient and its determination of the level of monitoring needed for each subrecipient.
- Consistently monitor subrecipients' activities to ensure that subrecipients' expenditures are allowable and comply with award requirements.
- Strengthen controls to ensure that it obtains required audits from subrecipients.
- Strengthen its process to ensure that it identifies at the time of disbursement all required Recovery Act information.

Views of Responsible Officials and Corrective Action Plan:

The University has analyzed its processes and subsequently enhanced its training and implemented a more thorough review process to prevent the errors identified from reoccurring. Additionally, the University will update its monitoring procedure to include its documented process for assessing risk of subrecipients.

Consistent with the audit recommendation, the University will obtain reasonable documentation from the subrecipient to ensure that "Other costs" are allowable and comply with award requirements.

The University has provided additional staff training to strengthen our process to ensure that it identifies at the time of disbursement all required Recovery Act information.

Implementation Date: March 2016

Responsible Person: Karen Niemeier

Reference No. 2015-146

Special Tests and Provisions – Key Personnel

Research and Development Cluster

Award years – November 1, 2013 to October 31, 2015 and September 15, 2010 to July 31, 2015

Award numbers – CFDA 12.420, Military Medical Research and Development, 1R01AR064066-01 and CFDA 93.866, Aging Research, 5U01AG033183-05

Type of finding – Significant Deficiency and Non-Compliance

A recipient of federal awards must obtain approval from federal awarding agencies for changes to a key person specified in the application or federal award and the disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator (Office of Management and Budget, Circular A-110, Sections .25(c)(2) and (3), and Title 2, Code of Federal Regulations, Section 200.308(c)(1)).

Questioned Cost: \$ 0

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

The University of Texas Health Science Center at Houston (Health Science Center) did not consistently obtain approval from the federal awarding agency for changes in the level of effort of key personnel as specified in award documents. Specifically, 2 (3 percent) of 60 key personnel tested did not perform the level of effort required in the award, and the Health Science Center did not obtain prior approval from the federal awarding agency. The Health Science Center requires departments to inform its Post Award Finance department of changes to key personnel. The Post Award Finance department then determines whether approval from the federal sponsor is needed prior to those changes being made; however, the Health Science Center did not follow that process consistently.

Not obtaining prior approval of reductions in or other changes to key personnel may result in federal sponsors being unaware of changes to key personnel.

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 provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300(b)).

The Health Science Center did not consistently maintain user accounts for its information systems. Specifically, auditors identified the following:

- Two user accounts had inappropriate access to the PeopleSoft Financials and Human Resources servers. The Health Science Center asserted that it had disabled the users' access to those accounts, but it could not provide documentation showing that it had disabled that access upon the termination of those users' employment.
- One developer with the vendor for the Health Science Center's time and effort certification system had both server administrator access and database administrator access.

Those errors occurred because (1) the Health Science Center did not conduct formal periodic reviews of user access for the servers and (2) the Health Science Center's vendor did not conduct formal periodic review of its servers and databases. Allowing users inappropriate or excessive access increases the risk of inappropriate changes to systems and does not allow for proper segregation of duties.

Recommendations:

The Health Science Center should:

- Consistently obtain approval from federal awarding agencies for changes in level of effort for key personnel prior to making those changes.
- Consistently limit access to its information systems based on users' job responsibilities, and conduct periodic reviews to identify inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

The University has enhanced its training by providing more proactive communication and training materials to departmental effort coordinators during the pre-certification period.

Consistent with the audit recommendation, the two user accounts have been removed from the LDAP instance that manages only shell access to the PeopleSoft HCM and FMS servers. Access to these servers requires access to the university network which is granted by the Enterprise LDAP instance. When an employee is terminated in the HCM system, their user id is locked immediately in the enterprise LDAP directory. With no access to the network, the PeopleSoft HCM and FMS servers are inaccessible. Additionally, the university will request that the vendor of its time and effort certification system designate separate individuals as server administrator and database administrator so these duties are segregated.

Implementation Date: February 2016

Responsible Person: Karen Niemeier

University of Texas Southwestern Medical Center

Reference No. 2015-151

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

Research and Development Cluster

Award years - Multiple

Award numbers - Multiple

Type of finding – Significant Deficiency and Non-Compliance

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. Service rates must be adjusted at least biennially and must take into consideration over/under applied 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 *Circular A-133 Compliance Supplement*, Part 3, Section B).

Questioned Cost: \$ 0

Federal agencies that award R&D funds

The University of Texas Southwestern Medical Center (Medical Center) did not always ensure that the costs of services provided by specialized service facilities were designed to recover only the aggregate costs of the services, and it did not adjust the service rates as required due to excessive fund balances. Two of three service centers tested had working capital reserves that exceeded 60 days of cash expenses. Specifically, the working capital reserves for those two service centers ranged from 125 to 173 days of cash expenses.

The Medical Center asserted that it reviews its service centers periodically to ensure that service center rates are appropriate to cover costs. The Medical Center did not have an approved policy or procedure for that review, and auditors could not confirm that the Medical Center had performed that review.

Maintaining excessive working capital reserves increases the risk that federal awards will not be charged an equitable rate and that service centers will recover more than the aggregate costs of the services.

General Controls

Institutions shall maintain internal control over federal programs that provides a reasonable assurance that 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 have adequate segregation of duties in its change management processes. Specifically, two individuals had access to both change application code and migrate code to the production environment. That occurred because the Medical Center’s periodic review of user access was not effective in identifying and changing that access. After auditors brought this issue to its attention, the Medical Center removed the inappropriate access for those two individuals. In addition, auditors determined that those two individuals did not migrate code that they had changed to the production environment.

Not having segregation of duties in change management increases the risk of unintended programming changes being made to critical information systems that the Medical Center uses to administer research and development grants.

Recommendations:

The Medical Center should:

- Establish and implement policies to ensure that it reviews and adjusts service center rates at least every two years.
- Strengthen controls to ensure that it does not maintain working capital reserves that exceed 60 days of cash expenses.
- Strengthen access controls for change management, including removing individuals' access to migrate code changes that they make to the production environment, and ensure that periodic reviews are effective in identifying inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

Service Centers

The service centers in question (Sanger Sequencing and Electron Microscopy) review their accounts monthly, paying close attention to situations where total revenue exceeds expenses. Any excess revenue is accounted for, so that average revenue/month does not exceed 60 days' worth of operating costs. At Fiscal Year-end, Service Centers work with the Provost Office to reconcile all expenses/encumbrances and make rate adjustments, if needed. UT Southwestern has a draft policy to support the above activities. This draft policy is being used in practice, as of October 2015.

UT Southwestern will continue performing monitoring and reconciliation operations and will document these activities each month and at Fiscal Year-end. UT Southwestern will finalize the Service Center Policy that is being used in practice.

Implementation Date: September 2016

Responsible Person: Cameron Slocum

General Controls: e-Systems (PeopleSoft & eCRT)

The UT Southwestern department of Academic & Administrative Information Systems was recently created. As part of this initiative, a comprehensive reorganization of several Information Resources departments has been undertaken – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened the overall controls and increases the level of compliance of code/migration access – particularly those activities related to access reviews over the server/database. UT Southwestern already has compensating controls, verified by internal audit, in place that help to mitigate situations where the same user could write and migrate code in production e-Systems. There are both controls in e-Systems and manual procedural controls that make it difficult to migrate a change without detection. Therefore, the risk of an unauthorized change is low. Going forward, a quarterly review will be conducted.

In addition, an external audit performed in fall 2015 identified the issue of high profile user account management. UT Southwestern provided a management response to this issue and developed a corrective action plan, which began prior to the SAO audit finding. The corrective action plan remains in progress and is due to be implemented by May 2016. The plan already includes development of policies and/or best practices.

Implementation Date: May 2016

Responsible Person: Dipti Ranganathan

Reference No. 2015-152

Cash Management

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

A recipient must maintain advances of federal funds in interest-bearing accounts unless (1) the recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22(k)). For those entities 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 must 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 must comply with CMIA as it pertains to interest (Title 2, CFR, Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, states that a 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). Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-federal entity's own funds, however represented, are unallowable (Title 2, CFR, Section 220, Appendix A, J(26)).

Questioned Cost: Unknown
U.S. Department of Defense

The University of Texas Southwestern Medical Center (Medical Center) did not remit to the federal government interest it earned on federal funds it received in advance of program expenses. Specifically, the methodology the Medical Center used to calculate that interest was inaccurate and did not enable the Medical Center to correctly calculate the amount of interest it earned on advances. In its calculation of interest:

- The Medical Center netted interest earned on advances with interest it determined it earned on the use of its own funds while waiting for scheduled payments from federal sponsors.
- The Medical Center was inconsistent in the interest rates that it applied to advances of funds.
- The Medical Center identified four grant accounts as closed in its calculation of interest; however, those accounts had positive cash balances totaling \$69,259 that could require refunds back to federal sponsors. The Medical Center did not include those positive cash balances in its calculation of interest, and it could not provide an explanation regarding those balances.

As a result of its incorrect methodology, the Medical Center did not accurately calculate the interest it earned on advances of federal funds and, therefore, did not remit the interest it earned, in excess of the allowance for administrative expenses of \$250. Due to the inappropriate methodology described above, auditors were unable to determine the actual amount of interest that the Medical Center would be required to remit to the federal government for fiscal year 2015.

The following awards were affected by the issue described above:

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-11-1-0270	July 1, 2011 to July 29, 2015

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-11-1-0738	September 1, 2011 to August 31, 2014
12.420	Military Medical Research and Development	W81XWH-10-2-0144	September 16, 2010 to September 15, 2014
12.420	Military Medical Research and Development	W81XWH-11-1-0491	June 15, 2011 to July 30, 2015
12.420	Military Medical Research and Development	W81XWH-11-1-0349	September 4, 2011 to October 3, 2013
12.420	Military Medical Research and Development	W81XWH-12-1-0289	September 1, 2012 to August 31, 2014
12.420	Military Medical Research and Development	W81XWH-11-1-0148	August 1, 2011 to August 31, 2014
12.420	Military Medical Research and Development	W81XWH-14-1-0428	September 30, 2014 to September 29, 2016
12.420	Military Medical Research and Development	W81XWH-13-1-0318	September 1, 2013 to August 31, 2015
12.420	Military Medical Research and Development	W81XWH-13-1-0462	September 30, 2013 to September 29, 2015
12.420	Military Medical Research and Development	W81XWH-14-1-0338	September 15, 2014 to September 14, 2016
12.420	Military Medical Research and Development	W81XWH-14-1-0540	September 30, 2014 to September 29, 2016
12.420	Military Medical Research and Development	W81XWH-14-1-0049	February 1, 2014 to January 31, 2016
12.420	Military Medical Research and Development	W81XWH-09-1-0637	October 3, 2012 to October 3, 2014
12.420	Military Medical Research and Development	W81XWH-14-1-0065	June 1, 2014 to May 31, 2016

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-11-1-0712	September 15, 2011 to March 14, 2014

Recommendation:

The Medical Center should develop and implement policies and procedures that accurately detail how it tracks and calculates interest on advances of federal funds to ensure compliance with requirements.

Views of Responsible Officials and Corrective Action Plan:

Cash Management/Advances

UT Southwestern does not accept cash advances from sponsors. All offices that negotiate awards will be trained to void any term and condition related to cash advances. Going forward, UT Southwestern will monitor sponsor payments and communicate to sponsors to ensure no cash advances are mistakenly issued by the sponsor to UT Southwestern.

Implementation Date: May 2016

Responsible Person: David Ngo

Reference No. 2015-153

Equipment and Real Property Management

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of Finding – Significant Deficiency and Non-Compliance

Equipment

A recipient’s equipment records for equipment acquired with federal funds and federally owned equipment must 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 (CFR), Section 215.34(f)).

Questioned Cost: \$ 0

U.S. Department of Health and Human Services
U.S. Department of Veterans Affairs

In addition, the University of Texas Southwestern Medical Center’s (Medical Center) *FSS-152: Acquisition, Management, and Disposal of UT Southwestern Property* policy handbook requires that all capitalized and controlled assets the Medical Center purchases be tagged and assigned a unique inventory number.

The Medical Center did not always maintain adequate property records for its equipment. For 4 (6 percent) of 71 equipment items tested, the property records contained an inaccurate serial number. Three of those errors occurred because the Medical Center did not enter asset information accurately and completely

into the asset management system and the Medical Center did not identify the discrepancies during its annual inventory. The remaining error occurred because a department did not notify inventory control that the equipment item was on loan to another higher education institution and delivered directly to that higher education institution; therefore, inventory control was unable to obtain the serial number.

In addition, for 4 (6 percent) of 66 equipment items physically inspected, the equipment items were not in the location specified in the property records. Those errors occurred because a department did not track the location of an item, the Medical Center did not enter information accurately into the asset management system, or because a department moved an equipment item and did not notify inventory control.

Not properly maintaining property records increases the risk that equipment may be lost or stolen.

Equipment Disposition

The Medical Center's *FSS-152: Acquisition, Management, and Disposal of UT Southwestern Property* policy handbook requires the vice provost and dean of basic research to provide written approval before property is transferred to another higher education institution. Additionally, the policy requires that missing or stolen property be reported to the Medical Center's police in a timely manner.

For 4 (15 percent) of 27 equipment disposals tested, the Medical Center did not always dispose of equipment in accordance with its policy. Specifically:

- The Medical Center did not properly document the transfer of one equipment item to another higher education institution. The Medical Center completed the proper form; however, the form did not specify the exact equipment item that it transferred.
- The Medical Center did not file police reports for two items that were missing for two consecutive years.
- The Medical Center could not provide documentation confirming its disposition of one item.

Not disposing of equipment in accordance with policy increases the risk that the Medical Center could improperly dispose of equipment purchased with federal funds.

Physical Inventory

A recipient must conduct a physical inventory of equipment and reconcile the results with equipment records at least once every two years. Any differences between quantities determined by the physical inventory and those shown in the accounting records must be investigated to determine the cause of the difference. The recipient must, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. A control system also must be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment must be investigated and fully documented; if the equipment was owned by the federal government, the recipient must promptly notify the federal awarding agency (Title 2, CFR, Section 215.34(f)).

The Medical Center conducts a physical inventory of equipment each fiscal year starting in September. It completed the fiscal year 2015 physical inventory on August 31, 2015. Each fiscal year, Medical Center staff attempt to locate each equipment item and record relevant data, including the asset number, location, and whether the item is currently in service. Items that cannot be located are reported to the relevant department's asset administrator for resolution. As discussed above, the Medical Center's *FSS-152: Acquisition, Management, and Disposal of UT Southwestern Property* policy handbook requires that missing or stolen property be reported to the Medical Center's police in a timely manner.

The Medical Center did not always resolve discrepancies it identified during its physical inventory in a timely manner. For 6 (46 percent) of 13 inventory discrepancies tested, the Medical Center identified equipment items that were missing, but it did not file a police report for those equipment items within the next fiscal year after it determined they were missing. Those errors occurred because the policy for reporting missing items to the police does not define when a police report should be filed and the Medical Center's procedures differed from the policy.

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

Not following up on discrepancies identified in a physical inventory increases the risk that the Medical Center could improperly dispose of equipment items purchased with federal funds.

The following awards were affected by the issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
64.000	U.S. Department of Veterans Affairs	VA549P0027	November 14, 2006 to December 31, 2010
93.000	U. S. Department of Health and Human Services	N01MH090003	September 29, 1999 to March 31, 2011
93.273	Alcohol Research Programs	5-R01-AA011570	September 30, 1998 to December 31, 2004
93.369	ACL Independent Living State Grants	5-K23-RR16075	July 15, 2000 to June 30, 2006
93.395	Cancer Treatment Research	5R01CA133253	August 1, 2010 to May 31, 2014
93.837	Cardiovascular Diseases Research	5R01HL102442	August 1, 2010 to April 30, 2015
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R37DK046082	January 1, 1993 to April 30, 2013
93.855	Allergy, Immunology and Transplantation Research	5R01AI097403	April 1, 2012 to March 31, 2017
93.855	Allergy, Immunology and Transplantation Research	5R37AI034432	December 1, 1994 to August 31, 2019
93.855	Allergy, Immunology and Transplantation Research	5-R01-AI056216	July 1, 2003 to December 31, 2008
93.855	Allergy, Immunology and Transplantation Research	2-T32-AI005284	July 1, 1980 to May 31, 2019
93.859	Biomedical Research and Research Training	5P50GM021681	July 1, 1998 to January 31, 2000
93.859	Biomedical Research and Research Training	5R01GM053163	May 1, 1996 to April 30, 2016
93.859	Biomedical Research and Research Training	5-R01-GM043479	July 1, 1990 to June 30, 2006
93.859	Biomedical Research and Research Training	1-U54-GM62114	September 1, 2000 to August 31, 2005
93.866	Aging Research	5R01AG007992	April 1, 1989 to February 29, 2012

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.866	Aging Research	5R01AG001228	January 15, 1992 to April 30, 2019

General Controls

Institutions shall maintain internal control over federal programs that provides a reasonable assurance that 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 have adequate segregation of duties in its change management processes. Specifically, two individuals had access to both change application code and migrate code to the production environment. That occurred because the Medical Center’s periodic review of user access was not effective in identifying and changing that access. After auditors brought this issue to its attention, the Medical Center removed the inappropriate access for those two individuals. In addition, auditors determined that those two individuals did not migrate code that they had changed to the production environment.

Not having segregation of duties in change management increases the risk of unintended programming changes being made to critical information systems that the Medical Center uses to administer research and development grants.

Recommendations:

The Medical Center should:

- Strengthen controls to ensure that it updates and maintains accurate and complete property records.
- Strengthen controls to ensure that it disposes of equipment items in accordance with its policy.
- Strengthen controls to ensure that it resolves discrepancies in its physical inventory in a timely manner and in accordance with its policy.
- Strengthen access controls for change management, including removing individuals’ access to migrate code changes that they make to the production environment, and ensure that periodic reviews are effective in identifying inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

Equipment

UT Southwestern Materials Management recently undertook and completed a comprehensive reorganization of the department – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened the overall controls and increases the level of compliance of inventory control/asset management – particularly those activities related to location of equipment, accuracy of property records, adherence to UTSW policy (for missing equipment and proper disposal.

Implementation Date: November 2016

Responsible Person: Charles Cobb

General Controls: e-Systems (PeopleSoft & eCRT)

The UT Southwestern department of Academic & Administrative Information Systems was recently created. As part of this initiative, a comprehensive reorganization of several Information Resources departments has been undertaken – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened the overall controls and increases the level of compliance of code/migration access – particularly those activities related to access reviews over the server/database. UT

Southwestern already has compensating controls, verified by internal audit, in place that help to mitigate situations where the same user could write and migrate code in production e-Systems. There are both controls in e-Systems and manual procedural controls that make it difficult to migrate a change without detection. Therefore, the risk of an unauthorized change is low. Going forward, a quarterly review will be conducted.

In addition, an external audit performed in fall 2015 identified the issue of high profile user account management. UT Southwestern provided a management response to this issue and developed a corrective action plan, which began prior to the SAO audit finding. The corrective action plan remains in progress and is due to be implemented by May 2016. The plan already includes development of policies and/or best practices.

Implementation Date: May 2016

Responsible Person: Dipti Ranganathan

Reference No. 2015-154

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

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

Questioned Cost: \$ 0

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

The University of Texas Southwestern Medical Center (Medical Center) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. Specifically, for 5 (10 percent) of 51 transactions tested, the Medical Center incurred and liquidated expenditures after the period of availability for the federal award. Those transactions totaling \$2,522 occurred between 77 days and 790 days after the period of availability. The Medical Center did not obtain reimbursement from the sponsor for the costs associated with those transactions.

For two additional transactions, the Medical Center incurred expenditures within the period of availability; however, it did not liquidate those expenditures within the required time period. For one of those transactions, the Medical Center asserted that the error occurred because the principal investigator relocated to a different research institution and that institution agreed to reimburse the Medical Center for the expenditures outside of the period of availability. However, the Medical Center did not have documented evidence of that agreement. For the other transaction, the Medical Center reimbursed a subrecipient more than 90 days after the completion of the award. The Medical Center asserted that it made the payment late because of negotiations with the subrecipient.

Not properly closing out awards increases the risk that unallowable costs could be charged to federal awards.

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

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
12.800	Air Force Defense Research Sciences Program	FA8650-10-2-6143 (the Medical Center received the award funds as a pass-through from Oregon Health and Science University)	July 1, 2011 to May 28, 2014
93.350	National Center for Advancing Translational Sciences	2UL1TR000451-06	June 1, 2012 to October 31, 2013
93.395	Cancer Treatment Research	138-000026 (the Medical Center received award funds as a pass-through from SRI International)	July 1, 2014 to August 31, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK09293903 (the Medical Center received award funds as a pass-through from University of Utah)	July 1, 2011 to April 30, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS061860-03	September 30, 2009 to August 31, 2014
93.855	Allergy, Immunology and Transplantation Research	5R01AI078962-03(the Medical Center received award funds as a pass-through from Seattle Biomedical Research Institute)	January 1, 2010 to May 1, 2013
93.866	Aging Research	U01AG029824 (the Medical Center received the award funds as a pass-through from Minneapolis Medical Research Foundation)	February 1, 2014 to January 31, 2015

General Controls

Institutions shall maintain internal control over federal programs that provides a reasonable assurance that 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 have adequate segregation of duties in its change management processes. Specifically, two individuals had access to both change application code and migrate code to the production

environment. That occurred because the Medical Center's periodic review of user access was not effective in identifying and changing that access. After auditors brought this issue to its attention, the Medical Center removed the inappropriate access for those two individuals. In addition, auditors determined that those two individuals did not migrate code that they had changed to the production environment.

Not having segregation of duties in change management increases the risk of unintended programming changes being made to critical information systems that the Medical Center uses to administer research and development grants

Recommendations:

The Medical Center should:

- Develop and implement a process to ensure that it complies with all period of availability requirements for federal awards and that it liquidates its obligations within required time frames.
- Strengthen access controls for change management, including removing individuals' access to migrate code changes that they make to the production environment, and ensure that periodic reviews are effective in identifying inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

POA (Telecom Charges)

UT Southwestern met all federal/sponsor obligations on the projects in questions. All final financial statements were submitted correctly and all costs claimed were allowable and accurate. The telecommunication (telecom) charges did not impact the accounting on the awards, nor did they negatively impact the sponsor. Auditors verified that no letter of credit draws or invoices were issued after the award ended (inclusive of before/after the telecom charges hit the account). UT Southwestern Sponsored Programs Administration will fully close out all expired grant awards in electronic systems. Programming will be completed in electronic systems to restrict all charges, including telecom, from being posted to closed accounts.

Implementation Date: November 2016

Responsible Person: Kirk Kirksey

General Controls: e-Systems (PeopleSoft & eCRT)

The UT Southwestern department of Academic & Administrative Information Systems was recently created. As part of this initiative, a comprehensive reorganization of several Information Resources departments has been undertaken – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened the overall controls and increases the level of compliance of code/migration access – particularly those activities related to access reviews over the server/database. UT Southwestern already has compensating controls, verified by internal audit, in place that help to mitigate situations where the same user could write and migrate code in production e-Systems. There are both controls in e-Systems and manual procedural controls that make it difficult to migrate a change without detection. Therefore, the risk of an unauthorized change is low. Going forward, a quarterly review will be conducted.

In addition, an external audit performed in fall 2015 identified the issue of high profile user account management. UT Southwestern provided a management response to this issue and developed a corrective action plan, which began prior to the SAO audit finding. The corrective action plan remains in progress and is due to be implemented by May 2016. The plan already includes development of policies and/or best practices.

Implementation Date: May 2016

Responsible Person: *Dipti Ranganathan*

Reference No. 2015-155

Reporting

(Prior Audit Issue 2013-193)

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 an award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Report Standard Form (SF-425) to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions and requirements of key reporting elements.

Questioned Cost: \$ 0

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

The University of Texas Southwestern Medical Center (Medical Center) did not ensure that its financial reports were accurate and supported by applicable accounting records. Specifically, 10 (17 percent) of 60 financial reports tested did not accurately reflect the indirect cost rate, amount of indirect costs, indirect cost base amount, or the federal share of expenditures. In addition, the Medical Center submitted 48 (80 percent) of the 60 financial reports tested with an incorrect accounting basis identified. While the Medical Center prepared the financial reports with the correct accrual accounting basis, it asserted that the financial accounting system selected the cash basis of accounting incorrectly, and the Medical Center did not change the applicable basis of accounting prior to submitting the financial reports.

While the Medical Center reviewed its financial reports prior to submission, that review was not sufficient to ensure that the financial reports were accurate and fully supported. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor their awards.

The issues above affected the following awards:

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-13-2-0093 (the Medical Center received award funds as a pass-through from the University of Washington)	September 30, 2013 to September 30, 2015
93.173	Research Related to Deafness and Communication Disorders	5R00DC01178004	April 1, 2012 to March 31, 2015
93.242	Mental Health Research Grants	5R01MH08116405	December 1, 2012 to November 30, 2014

UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER

CFDA No.	CFDA Title	Award Number	Award Year
93.310	Trans-NIH Research Support	1DP2OD00648401	September 1, 2009 to December 15, 2014
93.396	Cancer Biology Research	5R01CA12938705	September 22, 2008 to July 31, 2014
93.837	Cardiovascular Diseases Research	5R01HL09303905	June 1, 2012 to September 30, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01DK08302305	July 1, 2012 to June 30, 2014
93.859	Biomedical Research and Research Training	5R01GM08819705	August 1, 2012 to July 31, 2014
93.859	Biomedical Research and Research Training	5R01GM02566133	May 1, 2012 to August 31, 2014
93.859	Biomedical Research and Research Training	5R01GM08419804	August 1, 2009 to July 31, 2014

General Controls

Institutions shall maintain internal control over federal programs that provides a reasonable assurance that 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 have adequate segregation of duties in its change management processes. Specifically, two individuals had access to both change application code and migrate code to the production environment. That occurred because the Medical Center’s periodic review of user access was not effective in identifying and changing that access. After auditors brought this issue to its attention, the Medical Center removed the inappropriate access for those two individuals. In addition, auditors determined that those two individuals did not migrate code that they had changed to the production environment.

Not having segregation of duties in change management increases the risk of unintended programming changes being made to critical information systems that the Medical Center uses to administer research and development grants.

Recommendations:

The Medical Center should:

- Strengthen controls to ensure that the federal financial reports that it submits are complete and accurate.
- Strengthen access controls for change management, including removing individuals’ access to migrate code changes that they make to the production environment, and ensure that periodic reviews are effective in identifying inappropriate access.

Views of Responsible Officials and Corrective Action Plan:

Reporting (F&A)

UT Southwestern identified and corrected a glitch in the electronic systems, which will allow reporters to apply the correct F&A rate, amount and base. In addition, a process improvement initiative, focusing on

award closeout revamp has been launched. Included in the process improvements are the development of policies and guidance that continue to support and ensure accurate submission of financial reports. Staff has been trained to review/reconcile any discrepancies, as well as utilize required quality control checklists and queries.

Implementation Date: February 2016

Responsible Person: David Ngo

General Controls: e-Systems (PeopleSoft & eCRT)

The UT Southwestern department of Academic & Administrative Information Systems was recently created. As part of this initiative, a comprehensive reorganization of several Information Resources departments has been undertaken – addressing key people, processes, policies, procedures, training, and compliance functions. This reorganization has strengthened the overall controls and increases the level of compliance of code/migration access – particularly those activities related to access reviews over the server/database. UT Southwestern already has compensating controls, verified by internal audit, in place that help to mitigate situations where the same user could write and migrate code in production e-Systems. There are both controls in e-Systems and manual procedural controls that make it difficult to migrate a change without detection. Therefore, the risk of an unauthorized change is low. Going forward, a quarterly review will be conducted.

In addition, an external audit performed in fall 2015 identified the issue of high profile user account management. UT Southwestern provided a management response to this issue and developed a corrective action plan, which began prior to the SAO audit finding. The corrective action plan remains in progress and is due to be implemented by May 2016. The plan already includes development of policies and/or best practices.

Implementation Date: May 2016

Responsible Person: Dipti Ranganathan

Summary Schedule of Prior Year Audit Findings

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

- Each finding in the 2014 Schedule of Findings and Questioned Costs.
- Each finding in the 2014 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, 2015) has been prepared to address these responsibilities.

Texas A&M AgriLife Research

Reference No. 12-129

Period of Availability of Federal Funds

Research and Development Cluster

Award years – Multiple

Award numbers – Multiple

Type of finding – Significant Deficiency

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

Initial Year Written: 2011
Status: Partially Implemented

Federal agencies that award R&D funds

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

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

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

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

Corrective Action:

This finding was reissued as current year reference number 2015-104.

Texas A&M Engineering Experiment Station

Reference No. 2013-127

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

Research and Development Cluster

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

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

Type of finding – Significant Deficiency and Non-Compliance

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: 2013
Status: Implemented
National Science Foundation

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

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

Corrective Action:

Corrective action was taken.

Reference No. 2013-128

Reporting

Research and Development Cluster

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

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

Type of finding - Significant Deficiency and Non-Compliance

Financial Reporting

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

Initial Year Written: 2013
Status: Partially Implemented
Office of Naval Research
U.S. Department of Energy
National Science Foundation
Missile Defense Agency

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

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

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

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

Recommendation:

The Experiment Station should ensure that its financial reports accurately include all activity in the reporting period and are supported by applicable accounting records.

Views of Responsible Officials and Corrective Action Plan 2013:

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

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

The Total Federal Funds Authorized field reported an incorrect total as a result of incorrect information in the research administration system. The SRS accountant will review the awarded amounts recorded and work with the project administrator to ensure that the correct award amount is reported for current awards.

Processing new awards and new modifications will include a Quality Check in order to ensure that the correct total award amount is reflected in the system.

Implementation Date: January 2016

Responsible Person: Diane Hassel and Katherine Kissmann

Texas A&M Health Science Center

Reference No. 2013-133

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

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Payroll Expenditures

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

Initial Year Written: 2013

Status: Implemented

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

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

General Controls

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

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

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

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

TEXAS A&M HEALTH SCIENCE CENTER

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

Corrective Action:

Corrective action was taken.

Reference No. 2013-134

Cash Management

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013
 Status: Implemented

 U.S. Department of Health and Human Services

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

- For 1 (4 percent) of 28 drawdowns tested, the Health Science Center based the draw request on a report that it used for the previous draw request. However, because the Health Science Center did not refresh its report query, it based the draw amount on a report that was 12 days old and included expenditures for which it had previously drawn funds. The total amount of the draw was \$465,257. The Health Science Center identified and corrected the error during the subsequent draw one week later. However, for a portion of the time between the draws, the Health Science Center had overdrawn federal funds. The potential interest obligation resulting from the inaccurate draw was less than the threshold for remitting interest to the federal government; therefore, there were no questioned costs.

TEXAS A&M HEALTH SCIENCE CENTER

- For 3 (11 percent) of 28 drawdowns tested, the Health Science Center included invalid expenditures in the draw. Those three draws each contained an award that exceeded its approved budget; therefore, the Health Science Center should not have drawn funds on those awards. For two of those draws, which were associated with the same award, the Health Science Center drew \$7,474 more than the approved budget for the award. For the other draw, the Health Science Center drew \$51,289 more than the approved budget for that award. The Health Science Center subsequently removed the overbudget amount from one award and later received additional funding for the other award; therefore there were no questioned costs.

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

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

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01NS05478006	July 1, 2011 to December 31, 2012
93.837	Cardiovascular Diseases Research	7RO1HL068838-07	December 1, 2011 to November 30, 2013
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	7R01AR044415-13	December 1, 2011 to November 30, 2013
93.855	Allergy, Immunology and Transplantation Research	7R03AI09215302	December 1, 2011 to November 30, 2013
93.121	Oral Diseases and Disorders Research	7RO1DE019471-04	December 1, 2011 to November 30, 2013
93.701	Trans-NIH Recovery Act Research Support	7RC2ES018789-03	September 1, 2011 to July 31, 2013
93.113	Environmental Health	7R01ES008263-14	September 1, 2011 to February 28, 2014
93.701	Trans-NIH Recovery Act Research Support	3R01ES008263-14S1	September 1, 2011 to August 31, 2012
93.113	Environmental Health	7R21ES020055-02	January 25, 2012 to May 31, 2013
93.867	Vision Research	7RO1EY01842005	January 1, 2012 to December 31, 2013
93.396	Cancer Biology Research	7R01CA134731-03	January 1, 2012 to December 31, 2013
93.865	Child Health and Human Development Extramural Research	1R21HD06884101A1	January 1, 2013 to December 31, 2013
93.173	Research Related to Deafness and Communication Disorders	7R01DC009014-05	March 1, 2012 to February 28, 2014

TEXAS A&M HEALTH SCIENCE CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.837	Cardiovascular Diseases Research	5R01HL095786-04	February 1, 2012 to January 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R03NS07114102	February 1, 2012 to January 31, 2014
93.396	Cancer Biology Research	7R01CA096824-09	February 1, 2012 to January 31, 2014
93.173	Research Related to Deafness and Communication Disorders	7R01DC005606-10	April 1, 2012 to March 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS065842-03	April 1, 2012 to August 1, 2012
93.121	Oral Diseases and Disorders Research	7R01DE18885-04	April 1, 2012 to March 31, 2013
93.855	Allergy, Immunology and Transplantation Research	5R21AI095935	March 7, 2012 to February 28, 2014
93.866	Aging Research	7R01AG04136002	April 15, 2012 to March 31, 2014
93.855	Allergy, Immunology and Transplantation Research	7R01AI042345	April 1, 2012 to March 31, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	1R01DK095118-01	May 1, 2012 to April 30, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	7R01DK082435-03	May 1, 2012 to April 30, 2014
93.837	Cardiovascular Diseases Research	7K02HL098956-03	June 1, 2012 to May 31, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5K01DK081661-05	June 1, 2012 to May 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01S07489503	June 3, 2012 to May 31, 2014
93.396	Cancer Biology Research	7R01CA142862-03	June 1, 2012 to May 31, 2014
93.859	Biomedical Research and Research Training	7R01GM08406204	June 1, 2012 to May 31, 2014
93.213	Research and Training in Complementary and Alternative Medicine	7R21AT00625603	December 1, 2011 to September 29, 2013
93.121	Oral Diseases and Disorders Research	7R01DE00509235	July 1, 2012 to June 30, 2014

TEXAS A&M HEALTH SCIENCE CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.351	Research Infrastructure Programs	7P40OD011050-10	June 1, 2012 to June 14, 2013
93.121	Oral Diseases and Disorders Research	7R01DE018486-05	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	1R21AI101740-02	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	7U01AI082226-04	July 1, 2012 to June 30, 2013
93.837	Cardiovascular Diseases Research	7R01HL102314-03	July 1, 2012 to April 30, 2014
93.262	Occupational Safety and Health Program	2T03OH00410-04	July 1, 2012 to June 30, 2013
93.307	Minority Health and Health Disparities Research	7R01MD006228-03	July 4, 2012 to November 30, 2013
93.157	Centers of Excellence	D34HP24458	July 1, 2012 to June 30, 2013
93.837	Cardiovascular Diseases Research	5R21HL115463-02	July 10, 2012 to April 30, 2014
93.121	Oral Diseases and Disorders Research	1R01DE022975-01	July 11, 2012 to June 30, 2014
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	7R01DK062975-06	August 1, 2012 to July 31, 2014
93.866	Aging Research	7R01AG030578-05	August 1, 2012 to July 31, 2014
93.121	Oral Diseases and Disorders Research	7T32DE01838005	July 1, 2012 to June 30, 2014
93.856	Microbiology and Infectious Diseases Research	7R01AI20624-29	September 1, 2012 to August 31, 2014
93.855	Allergy, Immunology and Transplantation Research	1R56AI97372-01	August 1, 2012 to January 31, 2014
93.855	Allergy, Immunology and Transplantation Research	1R01AI095293-01A1	August 3, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	1K08HL11487701	July 1, 2012 to June 30, 2014
93.855	Allergy, Immunology and Transplantation Research	7R01AI083646-04	September 1, 2012 to August 31, 2014
93.121	Oral Diseases and Disorders Research	7R03DE021773-02	September 1, 2012 to August 31, 2014

TEXAS A&M HEALTH SCIENCE CENTER

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.866	Aging Research	7R01AG042189-02	September 1, 2012 to May 31, 2014
93.273	Alcohol Research Programs	7R01AA013440-10	September 1, 2012 to August 31, 2014
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS077177-02	September 1, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	7R01HL096552-04	August 1, 2012 to July 31, 2014
93.837	Cardiovascular Diseases Research	7R01HL090817-04	August 1, 2012 to July 31, 2014
93.855	Allergy, Immunology and Transplantation Research	5R21AI095788-02	September 13, 2012 to August 31, 2014
93.121	Oral Diseases and Disorders Research	1R01DE02212901A1	August 15, 2012 to July 31, 2014

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

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.701	Trans-NIH Recovery Act Research Support	7RC2ES018789-03	September 1, 2011 to August 31, 2012
93.396	Cancer Biology Research	7R01CA143811-03	January 1, 2012 to December 31, 2013

Corrective Action:

Corrective action was taken.

Reference No. 2013-135

Period of Availability of Federal Funds

Research and Development Cluster

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

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

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2013 Status: Partially Implemented U.S. Department of Health and Human Services
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The Texas A&M Health Science Center (Health Science Center) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. Specifically:

- For 1 (11 percent) of 9 transactions tested that were recorded after the end of the award period of availability, the Health Science Center did not incur the cost within the funding period. The Health Science Center incurred the \$264 cost associated with that transaction 157 days after the end of the funding period. The Health Science Center later reversed the charge to CFDA 93.262 award number 12-174-395071 and refunded the sponsor; therefore, there were no questioned costs associated with that error.
- For an additional transaction tested, the Health Science Center did not liquidate the obligation within 90 days after the end of the funding period. The Health Science Center liquidated the \$1,800 obligation 120 days after the end of the funding period, but it did not request an extension or make the sponsor aware of additional outstanding charges for CFDA 93.061 award number 1R43DP003339.

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

Recommendation:

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

Views of Responsible Officials and Corrective Action Plan 2013:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

and principal investigators regarding the closeout of federal projects within 90 days of the project termination date.

Views of Responsible Officials and Corrective Action Plan 2015:

Texas A&M System Sponsored Research Services has implemented a procedure which provides for the close out of federal projects within the time specified by the sponsor. This procedure includes liquidation of all outstanding obligations and the final invoice or financial report submission to the sponsor. The Health Science Center and Texas A&M System Sponsored Research Services will continue to train staff and principal investigators regarding the closeout of federal projects per sponsor requirements. The exceptions identified in the follow up review were fixed price federal flow-through projects which we believe are low risk.

Implementation Date: January 2016

Responsible Person: Michele Lacy

Texas A&M University – Corpus Christi

Reference No. 2014-116

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

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

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: 2014
Status: Implemented

Federal agencies that award R&D funds

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

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

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 2014-117

Reporting

Research and Development Cluster

Award years – September 1, 2012 to August 31, 2015; July 26, 2012 to August 31, 2014; September 30, 2012 to March 18, 2015; and September 25, 2013 to March 31, 2014

Award numbers – CFDA 10.318, Women and Minorities in Science, Technology, Engineering, and Mathematics Fields, 2012-38503-20278; CFDA 10.652, Forestry Research, 12-DG-11330101-096; CFDA 12.630, Monitor, Analysis, and Interpretation of Hydrodynamic and Sediment Transport System, W912HZ-12-C-0066; and CFDA 93.310, Trans-NIH Research Support, 1P20MD008690-01

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

Initial Year Written: 2014
Status: Partially Implemented

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

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

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

Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

Recommendation:

The University should strengthen controls to ensure that the federal financial reports it submits are complete and accurate.

Views of Responsible Officials and Corrective Action Plan 2014:

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

- *Supervisory review of financial reports is performed to assure accuracy and completeness of data and information included in the reports.*
- *Implementation of Maestro Project Module, a sponsored research administration system, which allows to monitor and analyze award and research expenditure activity. The system utilizes a notification*

functionality that creates reminders to the assigned responsible person when financial reports are due and assures timely submission of required reporting.

Views of Responsible Officials and Corrective Action Plan 2015:

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

- *Supervisory review of financial reports is performed to assure accuracy and completeness of data and information included in the reports.*
- *The Maestro Project Module, a sponsored research administration system, utilizes a notification functionality that creates reminders to the assigned responsible person when financial reports are due and assures timely submission of required reporting and a final copy is uploaded to Maestro. The office is currently conducting a comprehensive review of all active projects to ensure that notification reminders are activated and updated in the system.*

Implementation Date: August 2016

Responsible Person: Mayra A. Hough

Federal Funding Accountability and Transparency Act Reporting

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

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

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

Corrective Action:

Corrective action was taken.

Texas Tech University

Reference No. 2014-130

Reporting

Research and Development Cluster

Award years – April 15, 2011 to April 14, 2014; August 15, 2006 to September 30, 2013; September 14, 2010 to September 15, 2013; June 1, 2012 to May 31, 2017; July 1, 2012 to June 30, 2015; and July 1, 2012 to June 30, 2015

Award numbers – CFDA 12.800, Air Force Defense Research Sciences Program, FA9550 11 1 0027; CFDA 81.087, Renewable Energy Research and Development, DE FG36 06GO86092; CFDA 12.910, Research and Technology Development, FA2386 10 1 4165; CFDA 12.300, Basic and Applied Scientific Research, N00014-12-1-0525; CFDA 47.041, Engineering Grants, ECCS - 1200168; and CFDA 93.865, Child Health and Human Development Extramural Research, 1R15HD071514-01A1

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

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

Initial Year Written: 2014 Status: Partially Implemented National Science Foundation U.S. Department of Defense U.S. Department of Energy U.S. Department of Health and Human Services

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

Corrective Action:

Corrective action was taken.

Federal Funding Accountability and Transparency Act Reporting

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

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

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

Recommendation:

The University should develop and implement a process to ensure that it reports subawards that are subject to Transparency Act requirements in a timely and accurate manner.

Views of Responsible Officials and Corrective Action Plan 2014:

Finding: Federal Funding Accountability and Transparency Act Reporting

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

Views of Responsible Officials and Corrective Action Plan 2015:

In June 2014 (just prior to the original audit), Accounting Services implemented written policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA). In June 2015, additional monitoring controls were implemented to further reduce the risk of noncompliance. Specifically, a supervisor samples covered awards on a quarterly basis to check for timeliness and accuracy. However, two late reports were identified in the follow-up procedures. One report preceded the review procedures implemented in June 2015, and one was not included in the supervisor's sampling review. Going forward, Accounting Services will monitor monthly so that missed reports are detected in a timely manner. Additionally, Accounting Services is developing a report to automate the identification of covered awards to achieve a greater compliance rate.

Implementation Date: February 2016

Responsible Person: Simone Barnhill

University of Houston

Reference No. 2014-141

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

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

Payroll Expenditures

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

Initial Year Written: 2014
Status: Partially Implemented

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

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

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

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

Payroll Salary Restrictions

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

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

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

Direct Costs (Non-payroll)

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

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

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

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

UNIVERSITY OF HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year
81.000	Department of Energy	DE-EE0005806	September 1, 2012 to February 28, 2015
81.049	Office of Science Financial Assistance Program	DE-SC0006771	September 15, 2011 to September 14, 2015
81.049	Office of Science Financial Assistance Program	DE-FG02-07ER41521	November 15, 2013 to November 14, 2014
81.049	Office of Science Financial Assistance Program	DE-SC0008073	July 1, 2012 to June 30, 2015
81.105	National Industrial Competitiveness through Energy, Environment, and Economics	1452262	May 6, 2014 to September 1, 2014
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	DE-OE0000485	July 1, 2010 to December 30, 2014
81.135	Advanced Research Projects Agency - Energy	DE-AR0000196	January 1, 2012 to June 30, 2015
84.305	Education Research, Development and Dissemination	R305A090555	July 1, 2009 to June 30, 2014
84.305	Education Research, Development and Dissemination	UTA10-000725	July 1, 2010 to June 30, 2015
84.324	Research in Special Education	R324C08006	July 1, 2008 to June 30, 2014
93.121	Oral Diseases and Disorders Research	3R01DE022676-02S1	September 1, 2012 to August 31, 2014
93.173	Research Related to Deafness and Communication Disorders	1R03DC012640-02	August 1, 2013 to July 31, 2016
93.242	Mental Health Research Grants	1R01MH097726-01A1	September 13, 2013 to July 31, 2014
93.273	Alcohol Research Programs	1R21AA020572-02	September 5, 2011 to June 30, 2014
93.310	Trans-NIH Research Support	5R01CA174385-02	September 19, 2012 to June 30, 2016
93.398	Cancer Research Manpower	1K01CA151785-01	February 1, 2011 to August 31, 2015

UNIVERSITY OF HOUSTON

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

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

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

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

CFDA No.	CFDA Title	Award Number	Award Year
43.000	National Aeronautics and Space Administration	NAS 9-02078	November 28, 2011 to June 30, 2014
45.129	Promotion of the Humanities - Federal/State Partnership	2014-4596	April 1, 2014 to May 31, 2014

CFDA No.	CFDA Title	Award Number	Award Year
93.310	Trans-NIH Research Support	3U54HG006348-03S1	August 31, 2013 to July 31, 2014

Recommendations:

The University should:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

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

Views of Responsible Officials and Corrective Action Plan 2015:

Payroll Expenditures

The University is in the testing phase of the MAXIMUS software implementation. Hands-on training by the MAXIMUS team and the Office of Contracts and Grants (OCG) was completed on July 8, 2015 for both staff and faculty members that will be using the software. The roll-out date was September 1, 2015 for Quarter 3 of FY2015 reporting. To manage this effort, the University has hired a dedicated staff to coordinate the effort reporting process with regards to training and overseeing the process in general. The new electronic system tracks re-certification so that the date of the original certification is recorded to account for timing of the certification. The electronic system would also eliminate the error of the certification being signed but not dated. To address the issue of late certifications after the certification due date in the University's policy, the University has updated its policy with due dates that better align with the central university's practices and processing for payroll and payroll corrections.

Implementation Date: September 2015

Responsible Person: Beverly Rymer and Grace Rosanes

Payroll Salary Restrictions

The calculation worksheet and method used by the University for the DHHS salary cap considers the percentage of effort that each employee spends on a grant when it performs the Salary Cap Analysis. However, the University did not revise the effort or remove the payroll amount over the cap on the DHHS award where the amount did not exceed the 5% variance as outlined in its effort reporting policy. We now understand that for the NIH cap a variance is not allowed and have updated our practice to verify effort with the researcher and adjust payroll or effort as needed before certification. In addition, the new

MAXIMUS effort reporting system flags the DHHS awards and displays the difference between committed or reported effort and actual payroll effort based on the cap for easy verification and correction.

Implementation Date: September 2015

Responsible Person: Beverly Rymer and Grace Rosanes

Direct Costs (Non-payroll)

In order to reduce the risk that unallowed direct, non-payroll, costs will be charged to a federal fund cost center, the University modified its financial system to create a warning message when an expense account that is normally not allowed on a federal cost center is used on a voucher, requisition, purchase order, or journal, along with a federal cost center. The message tells the user that an unauthorized account is saved on a specific voucher, requisition, purchase order, or journal line and asks the user to verify the account is correct. The message also tells the user to change the account, if it is incorrect, or to route the document through the Office of Contracts and Grants for workflow approval. The warning message will appear each time the document is opened or saved by the document creator or a workflow approver (department, intermediate, and final approver). The final approver in Accounts Payable, Purchasing, or General Accounting will return the document to the user if the warning message appears and the document has not been approved by Contracts and Grants, the intermediate approver. Contracts and Grants will only approve the document if the expense is allowed on the specific federal grant in question

Implementation Date: July 31, 2015

Responsible Person: Mike Glisson

Reference No. 2014-142

Period of Availability of Federal Funds

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

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

Initial Year Written: 2014
Status: Partially Implemented

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

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

- For 3 (5 percent) of 62 transactions and adjustments tested, the University incurred the underlying expenditures outside the period of availability of the award. The University corrected one of those

UNIVERSITY OF HOUSTON

transactions after auditors brought it to the University’s attention; however, it did not correct the remaining 2, resulting in total questioned costs of \$6,661 associated with award number N00014-11-1-0069. The two transactions were payroll transactions for a pay period after the grant ended; the University had not corrected those charges at the time of the audit.

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

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

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

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

UNIVERSITY OF HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
81.049	Office of Science Financial Assistance Program	DE-FG02-07ER41518	August 15, 2010 to March 14, 2014	0
81.135	Advanced Research and Projects Agency - Energy Financial Assistance Program	DE-AR0000141	January 1, 2012 to July 31, 2013	0
93.213	Research and Training in Complementary and Alternative Medicine	5R01AT005522-04	September 1, 2012 to August 31, 2013	0
93.239	Policy Research and Evaluation Grants	60079362-104354-F	March 1, 2012 to September 29, 2013	0
Total Questioned Costs				\$6, 661

Recommendation:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

The University developed close out processes in keeping with the new Uniform Guidance that recognizes a close out period and a post-close out period. The University closes grant accounts in its accounting system during the post-close out period when it determines that all applicable administrative actions and all requirements of the Federal award have been completed including final payments.

Closeout - No later than 90 calendar days after the end date of the period of performance (grant end date), the University will liquidate all of its obligation, and will submit all financial, performance, and other reports as required by the terms and conditions of the Federal award or our federal flow-through agency. Some agencies may allow more time for final reports or may give the University authorization for an extension.

Post-closeout- Flow-through agencies and federal agencies that do not use the letter of credit payment method have up to 90 days after final financial statement or invoice to pay the University. Therefore after the period of availability, the University will continue to carry out post-close out adjustments and have continuing responsibilities that may involve making upward or downward adjustment to the award budget and expenses in its accounting system in order to align them with the amounts reported to the sponsor and

paid to the University. In addition, the Office of Contracts and Grants (OCG) financial office, rather than the responsible department, will remove unallowable expenses, during the close out period and during the post-close out period as well.

Payroll: In order to reduce the occurrences of payroll expenses outside of the period of performance posting to the grant account, the University has modified its financial system to validate the paycheck earning dates against the grant end date. If the earning date is after the grant end date, the payroll will post to a University suspense cost center instead of the grant account. In the past, verifying payroll outside of the period of performance was done manually. The questioned cost of \$6,661.00 in the 2014 finding was payroll outside of the period of performance not caught by the manual check. As part of the post-close out continuing responsibility, the sponsor was contacted, the final financial report was revised, the grant budget and expenses were adjusted, and a refund check was issued to the sponsor. Moving forward, the system control put in place will prevent payroll from posting to the grant account after the period of performance. The University has also implemented the online routing of payroll reallocations (eRAF). The reallocations forms will not validate or route through the financial system for approvals and post to the grant cost center if the accounting date of the award is closed. The accounting date on federal grants are set up in the financial system to close 90 days after the expiration of the award. A request must be made to the central Office of Grants and Contract office to extend this date for post close out activities.

Non-payroll: In order to reduce the instances of non-payroll expenses outside of the period of performance, the University has modified its financial system to check the invoices dates against the grant ending date. Vouchers using a federal fund now generate a warning message when an invoice date is entered that is after the grant end date. The warning message notifies the user that the invoice date is after the grant end date and instructs the user to send the voucher through the Office of Contracts and Grants for workflow approval. The warning message appears each time the voucher is saved or opened by the voucher creator or a workflow approver (department, intermediate, and final approver). Accounts Payable, the final approver, will return the voucher to the user if the warning message appears and the voucher has not been approved by Contracts and Grants, the intermediate approver. The University understands that there can be invoices with dates outside of the period of performance in which the work done by the vendor or contractor is within the period of performance. Also, under the new Uniform Guidance, expenses for publications can be paid after the period of performance. The purpose of the internal control is to ensure that such expenses are being verified before they are charged to a federal grant. The voucher can still be processed if Contracts and Grants determines that the cost is allowable.

Implementation Date: August 31, 2015

Responsible Person: Beverly Rymer and Mike Glisson

Reference No. 2014-143

Reporting

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding - Significant Deficiency and Non-Compliance

Financial Reporting

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

Initial Year Written: 2014 Status: Partially Implemented
U.S. Department of Health and Human Services U.S. Department of Energy National Aeronautics and Space Administration

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

Corrective Action:

Corrective action was taken.

Federal Funding Accountability and Transparency Act Reporting

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

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

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

UNIVERSITY OF HOUSTON

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

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.243	Substance Abuse and Mental Health Sciences-Projects of Regional and National Significance	1H79SP020184-01	September 30, 2013 to September 29, 2016
93.273	Alcohol Research Programs	5 R01 AA014576-10	September 6, 2004 to July 31, 2016
93.859	Biomedical Research and Research Training	5 R01 GM097553-03	September 30, 2011 to August 31, 2016
93.865	Child Health and Human Development Extramural Research	2P50HD052117-08	February 1, 2006 to November 30, 2016

Recommendation:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

During February 2016, we modified our procedures for the Federal Funding Accountability and Transparency Act (FFATA) reporting, to help ensure that all required reports are prepared and submitted in a timely manner.

Implementation Date: February 2015

Responsible Person: Beverly Rymer and Javeria Kazi

University of Texas at Austin

Reference No. 2014-155

Equipment and Real Property Management
(Prior Audit Issues 2013-176, 13-161, and 12-170)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2011
Status: Partially Implemented

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

A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

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

The University did not always maintain adequate property records for its equipment items. For 3 (5 percent) of 64 equipment items tested, the University’s property records were inaccurate. For each of those three items, the information for one or more of the following was inaccurate: the item location, information on the transfer of an item to another institution, inventory tag numbers, serial numbers, or a condition code.

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

The issues above affected the following awards:

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

Corrective Action:

This finding was reissued as current year reference number 2015-134.

University of Texas at El Paso

Reference No. 2013-178

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

**Research and Development Cluster
Research and Development Cluster - ARRA
Award years – Multiple
Award numbers – Multiple
Type of finding – Material Weakness and Material 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 did not maintain adequate user access controls over its Effort Certification & Reporting Technology (ECRT) application. Specifically, the University had a generic ECRT user account with high-level system administrator access that was no longer necessary. The University removed access for that account during the audit. The existence of unnecessary generic accounts with high-level system administrator access increases the risk of inappropriate and unauthorized changes to applications.

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

Initial Year Written: 2013
Status: Implemented

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

Corrective Action:

Corrective action was taken.

Reference No. 2013-179

Cash Management

Research and Development Cluster

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

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

Type of finding – Significant Deficiency and Non-Compliance

Recipients shall maintain advances of federal funds in interest-bearing accounts unless: (1) The recipient receives less than \$120,000 in federal awards per year, (2) the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances, or (3) the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources (Title 2, Code of Federal Regulations (CFR), Section 215.22 (k)). For those entities for which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to the U.S. Department of Health and Human Services. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, CFR, Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

Initial Year Written: 2013 Status: Partially Implemented U.S. Department of Defense National Aeronautics and Space Administration

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

Recommendations:

The University should:

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

Views of Responsible Officials and Corrective Action Plan 2013:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

A separate account to manage the interest generated from all federal fund advances has been created. The process as detailed in the action plan of 2014 has been implemented and is being followed. The only revision in the process requires that all federal advances, regardless if the advance is subject to interest bearing terms, be maintained in this account.

Implementation Date: December 2015

Responsible Person: Manuela Dokie

Reference No. 2013-181

Reporting

Research and Development Cluster

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

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

Type of finding – Significant Deficiency and Non-Compliance

Federal Funding Accountability and Transparency Act Reporting

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

Initial Year Written: 2013
Status: Partially Implemented

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

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

- For 6 (67 percent) of 9 reports tested, the University did not report some of the data elements included in the reports accurately. For five of those reports, the University did not report the obligation date accurately. For two of those five reports, the errors occurred because the University reported the dates that the University signed the subawards, rather than the dates on which the University and the subrecipient both signed the subawards. For three of those five reports, those errors occurred because the University reported the beginning date of the subawards, rather than the dates the subaward

agreements were signed. As a result, the University reported obligation dates for those five subawards ranging from 14 to 81 days before both parties signed the subawards. For one of those reports, the University overstated the subaward amount by \$440,730. The amount of the subaward was \$48,968; however, the University reported \$489,698 due to a manual error.

- For 7 (78 percent) of 9 reports tested, the University submitted the reports between 1 and 10 months late because it fell behind in submitting subaward information for Transparency Act reporting.

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

Recommendation:

The University should submit Transparency Act reports that are accurate and supported by applicable accounting or performance records, and submit those reports in a timely manner.

Views of Responsible Officials and Corrective Action Plan 2013:

UTEP developed processes and dedicated support staff to sustain FFATA reporting as of June 2013. Effort is continuing to improve on the timeliness of FFATA reporting and elimination of manual input to mitigate risks of error.

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

As defined in the corrective action plan 2014, efforts have been implemented since original findings in 2013. Between ORSP and C&G Staff, there are sufficient human and technology resources to pre and post award manage the subcontract enterprise.

Implementation Date: December 2014

Responsible Person: Manuela Dokie

University of Texas Health Science Center at Houston

Reference No. 2014-156

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

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Direct Costs (Non-payroll)

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

Initial Year Written: 2014
 Status: Implemented

 U.S. Department of Health and
 Human Services

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

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

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

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

The following awards were affected by the issues discussed above.

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	3U48DP001949-05S1	September 30, 2009 to March 29, 2015
93.350	National Center for Advancing Translational Sciences	5KL2TR000370-08	June 27, 2012 to May 31, 2017

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.838	Lung Diseases Research	5P01HL114457-02	June 1, 2013 to May 31, 2018
93.994	Maternal and Child Health Services Block Grant to the States	2014-044533-001	September 1, 2013 to August 31, 2014

Corrective Action:

Corrective action was taken.

Reference No. 2014-157

Period of Availability of Federal Funds

Research and Development Cluster

Research and Development Cluster - ARRA

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2014
 Status: Partially Implemented

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

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

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

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

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

did not process the transfers within 90 days after the end of the funding period. While the Health Science Center reviewed and approved the transfers, that was not effective to ensure that the transfers occurred within 90 days after the end of the funding period.

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

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

The following awards were affected by the issues described above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	5888NE1	September 1, 1998 to September 30, 1998	\$ 77
12.420	Military Medical Research and Development	W81XWH-10-1-1060	September 27, 2010 to December 26, 2012	20
12.420	Military Medical Research and Development	W81XWH-11-1-0304	January 1, 2011 to April 30, 2012	0
64.009	Veterans Medical Care Benefits	V671P-3846	December 1, 2001 to September 30, 2003	15,762
64.018	Sharing Specialized Medical Resources	580-D-35329	January 1, 2002 to December 31, 2004	4
64.018	Sharing Specialized Medical Resources	DVA-671/151	January 12, 2000 to September 31, 2000	58
84.305	Education Research, Development and Dissemination	ED-01-CO-00390005	December 1, 2003 to November 30, 2004	1,677
84.359	Early Reading First Program	EDO1CO00550006	August 15, 2002 to April 30, 2003	2,210
93.000	Department of Health and Human Services	CRB-SSS-S-12-002254	January 20, 2012 to March 31, 2013	5,156
93.000	Department of Health and Human Services	HHSN261201200210P	June 14, 2012 to December 31, 2012	1,506
93.000	Department of Health and Human Services	MDC-03-03	December 1, 2007 to October 21, 2009	723

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	U52/CCU600497	January 1, 2005 to December 31, 2005	6,075
93.226	Research on Healthcare Costs, Quality and Outcomes	5R01HS013099-02	September 30, 2004 to September 29, 2006	1,383
93.262	Occupational Safety and Health Program	264585	September 30, 2002 to September 30, 2003	22,795
93.278	Drug Abuse National Research Service Awards for Research Training	R01DA1075	February 2, 2002 to December 2, 2003	0
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2011-037904-001	March 15, 2011 to August 31, 2011	2,160
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2012-039523-001	September 1, 2011 to August 31, 2012	75
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	H056-03/03	December 1, 1997 to September 30, 1999	146
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	REG 65-10	July 1, 2010 to June 30, 2011	4,099
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-002	January 14, 2013 to June 29, 2013	118
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-001	January 14, 2013 to June 29, 2013	91
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	2013-043379-000	January 14, 2013 to June 29, 2013	669
93.350	National Center for Advancing Translational Sciences	5UL1TR000371-07	February 1, 2012 to May 31, 2013	0
93.350	National Center for Advancing Translational Sciences	5UL1TR000371-08	January 1, 2012 to May 31, 2013	6,450
93.389	National Center for Research Resources	UL1RR024148	July 1, 2007 to June 30, 2011	24,429
93.531	PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants -	4500160060-1	April 1, 2012 to September 30, 2012	7,892

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
	financed solely by Prevention and Public Health Funds			
93.837	Cardiovascular Diseases Research	5U01HL087318-04	January 1, 2009 to December 31, 2010	7,309
93.837	Cardiovascular Diseases Research	N02-HL-3-4208	September 1, 2003 to February 28, 2005	4,442
93.837	Cardiovascular Diseases Research	U01HL38844	August 15, 1997 to July 31, 2002	22,215
93.837	Cardiovascular Diseases Research	R01HL095132	June 1, 2009 to June 30, 2013	3
93.837	Cardiovascular Diseases Research	5R01HL088128-05	March 7, 2008 to February 28, 2014	46
93.838	Lung Diseases Research	R01HL089901-03	December 1, 2007 to July 31, 2013	1,821
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	N01-AI-05419	January 1, 2008 to September 21, 2012	51
93.849	Kidney Diseases, Urology and Hematology Research	5U01DK066174-05	August 1, 2004 to July 31, 2008	8,968
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1U01NS045719	August 1, 2004 to November 30, 2012	56,435
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS037666-07	January 17, 2005 to March 31, 2009	29,215
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS032228-12	January 1, 2008 to September 30, 2012	247
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS052220-02	February 1, 2006 to November 30, 2010	8,215
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	P50NS044378-06	July 22, 2008 to April 30, 2013	0
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	R1NS39160	September 30, 2000 to March 31, 2004	9,525

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	U01NS040406	June 1, 2007 to May 31, 2013	33,464
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	U01NS053998	May 1, 2009 to April 30, 2012	0
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	1U0NS062778-01	September 1, 2010 to June 30, 2013	1,235
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS056975-02	August 1, 2007 to May 31, 2014	25
93.855	Allergy, Immunology and Transplantation Research	1U01AI067693-02	September 1, 2008 to August 31, 2011	446
93.855	Allergy, Immunology and Transplantation Research	ACTG PROTOCOL A5280/SITE 31473	June 1, 2011 to May 31, 2012	363
93.855	Allergy, Immunology and Transplantation Research	PROTOCOL A5257	February 1, 2009 to November 30, 2011	25
93.855	Allergy, Immunology and Transplantation Research	ACTG A5260S	January 1, 2010 to July 31, 2013	84
93.855	Allergy, Immunology and Transplantation Research	5R21AI088329-02	January 1, 2011 to December 31, 2013	0
93.865	Child Health and Human Development Extramural Research	5R01HD043943-04	February 1, 2004 to January 31, 2008	1,364
93.865	Child Health and Human Development Extramural Research	HHSN267200603 425C	June 1, 2007 to September 30, 2008	4,031
93.865	Child Health and Human Development Extramural Research	U01HD050078/S UBAWARD 11- 035	February 1, 2009 to January 31, 2013	3,459
93.867	Vision Research	U10EY09867-05	July 1, 2001 to June 30, 2002	128
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	7447447444- 2001-17	June 1, 2001 to December 31, 2001	1,863
93.924	Ryan White HIV/AIDS Dental Reimbursement and	RWDENTAIDS/9 5	August 1, 1995 to August 1, 1997	590

UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
	Community Based Dental Partnership Grants			
93.940	HIV Prevention Activities - Health Department Based	P015148	March 1, 1995 to February 28, 2001	23
93.940	HIV Prevention Activities - Health Department Based	U62/CCU606238	January 1, 2003 to December 31, 2011	32,144
Total Questioned Cost				\$331,311

Corrective Action:

This finding was reissued as current year reference number 2015-143.

Reference No. 2014-158

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

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

Preaward Requirements

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

Initial Year Written: 2014
Status: Partially Implemented

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

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

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

Award Identification Requirements

At the time of a subaward, the pass-through entity must identify to the subrecipient the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, the name of the federal awarding agency, and applicable compliance requirements (U.S. Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d)).

For 3 (7 percent) of 42 subawards tested, the Health Science Center did not always include federal award identification requirements or applicable compliance requirements in subaward agreements. Specifically, the Health Science Center did not always include the CFDA number, ensure that the CFDA

number was correct, include the prime award number, or include any special terms and conditions. The Health Science Center created subawards using the Federal Demonstration Partnership template. However, it did not consistently or accurately complete all fields in that template.

Inadequate identification of federal awards to subrecipients could lead to improper reporting of federal funding on a subrecipient's schedule of expenditures of federal awards. Inadequate identification of special terms and conditions increases the risk that the Health Science Center would not detect a subrecipient's noncompliance with federal requirements.

Subrecipient Audits

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

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

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

Special Tests and Provisions – R3 – Subrecipient Monitoring

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

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

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

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

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

The following awards were affected by the issues discussed above.

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-13-1-0489	September 30, 2013 to September 29, 2016
93.279	Drug Abuse and Addiction Research Programs	1R01DA035157-02	September 1, 2012 to July 31, 2013
93.307	Minority Health and Health Disparities Research	5U24MD006941-04	September 20, 2011 to June 30, 2012
93.324	State Health Insurance Assistance Program	R324A120363	September 1, 2012 to August 31, 2013
93.701	Trans-NIH Recovery Act Research	U01NS062835	September 30, 2009 to August 31, 2010
93.728	ARRA - Strategic Health IT Advanced Research Projects	90TR0004-01	April 10, 2010 to March 31, 2014
93.837	Cardiovascular Diseases Research	5UM1HL087318-08	March 15, 2012 to February 28, 2013
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS078745-03	June 1, 2013 to May 31, 2014
93.859	Biomedical Research and Research Training	5R01GM104411-02	April 1, 2013 to January 31, 2014
93.865	Child Health and Human Development Extramural Research	5R01HD067694-04	April 1, 2011 to March 31, 2012

Corrective Action:

This finding was reissued as current year reference number 2015-145.

University of Texas M.D. Anderson Cancer Center

Reference No. 2014-159

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

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

Payroll Expenditures

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

Initial Year Written: 2014
 Status: Partially Implemented

 U.S. Department of Health and Human Services

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

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

The following awards were affected by the issue discussed above:

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

UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Cost
93.393	Cancer Cause and Prevention Research	5 R01 CA154823 03	April 1, 2011 to March 31, 2013	147
93.395	Cancer Treatment Research	5 R21 CA153017 02	March 2, 2011 to February 28, 2013	24
93.397	Cancer Centers Support Grants	5 U54 CA153505 04	September 1, 2010 to August 31, 2015	110
93.397	Cancer Centers Support Grants	5 P30 CA016672 39	July 1 2013, to June 30, 2018	272
93.398	Cancer Research Manpower	2 R25 CA056452 21 A1	July 3, 2013 to June 30, 2018	445
93.398	Cancer Research Manpower	2 R25 CA057730 22	July 23, 2012 to July 22, 2013	441
93.398	Cancer Research Manpower	5 K08 CA151651 05	September 1, 2010 to August 31, 2015	291
93.398	Cancer Research Manpower	5 K12 CA088084 14	September 13, 2000 to August 31, 2015	99
Total Questioned Cost				\$2144.00

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

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

Recommendation:

The Cancer Center should adjust payroll charges to federal awards based on certified effort.

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

The Cancer Center implemented a new process to ensure that the correct NIH salary limits is in our effort certification system. The new process includes management review and approval of the NIH salary limitation in the effort certification system. In addition, the effort certification system is designed to identify employees whose salaries exceed the NIH salary limit. Grants and Contracts reviews the personnel action forms for salary allocation to sponsored projects. The Cancer Center will continue to strengthen its controls to ensure that payroll charges are adjusted to certified effort.

Implementation Date: February 2016

Responsible Persons: Claudia Delgado

Other Compliance Requirements

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

General Controls

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 2014-160

Equipment and Real Property Management

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

A recipient's property management standards for equipment acquired with federal funds and federally-owned equipment must include all of the following: a description of the equipment; manufacturer's serial number or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment, unit acquisition cost; and ultimate disposition data for the equipment. In addition, a physical inventory of equipment must be taken, and the results must be reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the causes of the difference. The recipient must, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment. A control system also must be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment must

Initial Year Written: 2014 Status: Partially Implemented U.S. Department of Health and Human Services U.S. Department of Defense
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be investigated and fully documented; if the equipment was owned by the federal government, the recipient must promptly notify the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas M.D. Anderson Cancer Center’s (Cancer Center) *Asset Control Manual* requires that all capital and controlled assets be tagged upon receipt or prior to being placed in service with a standard, prenumbered Cancer Center property identification tag. Tags must be placed in a highly visible location on each asset where the tags are easily accessible during the annual inventory, and unauthorized removal of the property identification tags is strictly prohibited.

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

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

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

The following awards were affected by the issues noted above:

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

Recommendations:

The Cancer Center should:

- Strengthen controls to ensure that it maintains complete and accurate property records for equipment.
- Strengthen controls to ensure that it adequately safeguards its equipment to prevent loss, damage, or theft of equipment.

Views of Responsible Officials and Corrective Action Plan 2014:

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

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

Views of Responsible Officials and Corrective Action Plan 2015:

The implementation of the corrective actions 1) re-education of buyers regarding the use of the "Do Not Receive" flag for asset purchases; 2) closer monitoring of PeopleSoft operational ticket requests to fix issues impacting the creation of assets; 3) removal of the PeopleSoft customization that requires certain data to be entered at the receipt level which if not entered, keeps receipts open not allowing the asset information to pass to the Asset Management (AM) subsystem's interface for asset creation; 4) review all asset related open receipts and fix any issues; and 5) utilize a process made available to the AM subsystem in January 2015 to quickly and accurately load assets into the registry is in process and expected to be completed by the end of August.

MD Anderson is following its annual inventory procedure.

Implementation Date: August 2015 and February 2015

Responsible Persons: Bob Mahaney and Rick Dillard

General Controls

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

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

duties issues do not exist for users who have access to multiple system profiles or transactions. However, that process was not documented, and it was not sufficient to prevent the errors discussed above.

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

Corrective Action:

Corrective action was taken.

Reference No. 2014-161

Reporting

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

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Report Standard Form (SF) 425, the Federal Cash Transactions Report SF-272, or other reporting forms as required by the applicable Federal awarding agency to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425 and SF-272, including definitions and requirements of key reporting elements.

Initial Year Written: 2012 Status: Partially Implemented

U.S. Department of Health and Human Services

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

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

Recommendation:

The Cancer Center should strengthen controls to ensure that the federal financial reports that it submits are complete and accurate.

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

The Cancer Center will continue to focus on strengthening its controls to ensure that the federal financial reports are complete and accurate.

Implementation Date: February 2016

Responsible Persons: Claudia Delgado

Federal Funding and Accountability and Transparency Act

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

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

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

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

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

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

Corrective Action:

Corrective action was taken.

General Controls

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

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

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

Corrective Action:

Corrective action was taken.

Reference No. 2014-162

Subrecipient Monitoring

Special Tests and Provisions – R3 – Subrecipient Monitoring

(Prior Audit Issues 2013-186 and 13-172)

Research and Development Cluster

Research and Development Cluster – ARRA

Award years – May 1, 2010 to February 28, 2015; January 1, 2011 to December 31, 2012; September 1, 2011 to August 31, 2013; July 1, 2012 to June 30, 2015; September 1, 2009 to September 30, 2014; and September 1, 2010 to August 31, 2013

Award numbers – CFDA 93.393, Cancer Cause and Prevention Research, 5 R01 CA149462 04; CFDA 93.855, Allergy, Immunology and Transplantation Research, 5 R03 AI092252 02; CFDA 93.395, Cancer Treatment Research, 5 R21 CA159270 01; CFDA 12.420, Military Medical Research and Development, W81XWH-12-1-0202 02; CFDA 93.887, Health Care and Other Facilities, 1 C76 HF015481 01; and CFDA 93.715, Recovery Act – Comparative Effectiveness Research - AHRQ, 1 R18 HS019354 01 A

Type of finding – Significant Deficiency and Non-Compliance

Preaward Requirements

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

Initial Year Written: 2012
Status: Implemented

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

For 4 (21 percent) of 19 non-American Recovery and Reinvestment Act subawards tested that were awarded after October 1, 2010, the University of Texas M.D. Anderson Cancer Center (Cancer Center) did not obtain a DUNS number prior to making the subaward. The Cancer Center uses a preaward process to document subrecipient information, including a subrecipient's DUNS number. However, the Cancer Center did not consistently apply that process. In May 2014, the Cancer Center implemented a new preaward process to ensure that it obtains DUNS numbers for subrecipients prior to executing subawards. The four subawards for which the Cancer Center did not obtain DUNS numbers were awarded prior to the implementation of that new preaward process.

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

Corrective Action:

Corrective action was taken.

During-the-award Monitoring

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

For 3 (11 percent) of 28 subawards tested, the Cancer Center did not consistently monitor subrecipient activities during the subaward periods to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal requirements. Specifically, for those subawards, the Cancer Center reviewed and approved subrecipient invoices prior to payment; however, those invoices did not contain sufficient detail for the Cancer Center to determine whether the expenditures were for allowable activities and costs or whether the expenditures complied with other federal and award requirements. For example, one subrecipient invoice included an \$8,266 line item labeled “Supplies/Services”; however, the subaward budget included costs only for equipment, and there was no further information on the invoice regarding the type of expenses it covered. The Cancer Center implemented a new process in May 2014 to strengthen its review of subrecipient invoices; however, it reviewed and approved the activities of a subrecipient associated with one of the errors discussed above in July 2014, after it had implemented that new process.

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

Corrective Action:

Corrective action was taken.

Special Tests and Provisions – R3 – Subrecipient Monitoring

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

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

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

Corrective Action:

This finding is no longer valid. The Cancer Center no longer has active Recovery Act subawards.

General Controls

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

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

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

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 2014-163

Equipment and Real Property Management

(Prior Audit Issue 13-175)

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of Finding – Significant Deficiency and Non-Compliance

Equipment

A recipient's equipment records for equipment acquired with federal funds and federally owned equipment shall be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number, model number, federal stock number, national stock number, or other identification number; the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment. In addition, a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

Initial Year Written: 2012
Status: Partially Implemented

U.S. Department of Health and
Human Services

The University of Texas Medical Branch at Galveston's (Medical Branch) *Asset Management Handbook* also requires that an inventory tag with a bar code be affixed to new equipment items that are capitalized (items with a unit cost of \$5,000 or more) or controlled (certain items with a unit cost between \$500 and \$5,000).

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

Corrective Action:

Corrective action was taken.

Equipment Disposition

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

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

UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON

The following awards were affected by the issues discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.000	Department of Health and Human Services	N01-AI-40097/HHSN266	September 30, 2004 to September 30, 2010
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	R01DK3481718	April 1, 1999 to May 31, 2004
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 P01 NS011255-31	August 1, 2001 to March, 31, 2008
93.855	Allergy, Immunology and Transplantation Research	5UC7AI09466004	May 31, 2011 to April 30, 2016

Recommendation:

The Medical Branch should strengthen controls to help ensure that it obtains proper approvals prior to final disposition of assets.

Views of Responsible Officials and Corrective Action Plan 2014:

Equipment Disposition:

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

- *Asset Management will be working with logistics to ensure the data feed detailing what assets are purchased with federal funds is prepared and loaded into eSurplus in the appropriate manner to ensure asset funding source is correctly identified.*
- *Asset Management will request that Logistics add additional fields to the data export from eSurplus to ensure that OSP approval has occurred for applicable items. This will include: the fund code related to the asset, the field identifying whether the item has been marked as needing OSP approval, and the field noting that OSP has approved this item. This will allow Asset Management to identify at the beginning of the process any potential issues and ensure proper approvals occur.*
- *Asset Management will be doing a quarterly review of all disposed assets purchased with federal funds to ensure appropriate approvals have occurred.*

Views of Responsible Officials and Corrective Action Plan 2015:

Asset Management will continue to work with Logistics to correct the process breakages that allowed equipment to be disposed without prior approval. Specifically, controls will be strengthened to ensure assets are entered into eSurplus prior to auction. Logistics has added functionality to eSurplus that notifies the user that a scheduled surplus pickup contains federal or public assistance funded equipment, to provide an opportunity to confirm approval has occurred before the equipment is sent to surplus. Asset Management is also performing routine checks to ensure approvals are occurring appropriately, as well as following up with the appropriate approval group quarterly to obtain a secondary approval for all transactions relating to federal or public assistance funded equipment.

Implementation Date: February 2016

Responsible Persons: Michael Linton

Reference No. 2014-164

Reporting

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of Finding – Significant Deficiency and Non-Compliance

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

Initial Year Written: 2014
 Status: Partially Implemented

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

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

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

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

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

CFDA No.	CFDA Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00014-12-C-0556	August 27, 2012 to February 27, 2015
12.351	Basic Scientific Research – Combating Weapons of Mass Destruction	HDTRA1-11-1-0032	June 15, 2013 to June 14, 2014
93.226	Research on Healthcare Costs, Quality and Outcomes	5R24HS022134-02	May 1, 2013 to April 30, 2018

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.855	Allergy, Immunology and Transplantation Research	5R01AI093445-04	April 4, 2011 to March 31, 2016
93.855	Allergy, Immunology and Transplantation Research	5R21AI102267-02	July 1, 2012 to June 30, 2014
93.866	Aging Research	5R01AG018016-08	September 30, 1999 to March 31, 2016

Recommendation:

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

Views of Responsible Officials and Corrective Action Plan 2014:

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

Views of Responsible Officials and Corrective Action Plan 2015:

Monthly process has been revised to include information on any modifications to existing awards that may require Transparency Act reporting. The revised process has been in place for several months and appears to have resolved any deficiencies that may have existed.

Implementation Date: January 2015

Responsible Person: Glenita Segura

University of Texas Southwestern Medical Center

Reference No. 2013-193

Reporting

Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

Financial Reporting

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

Initial Year Written: 2013
 Status: Partially Implemented

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

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

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

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

Corrective Action:

This finding was reissued as current year reference number 2015-155.

Appendix

Objectives, Scope, and Methodology

Objectives

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

Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2014, through August 31, 2015. The audit work included control and compliance tests at seven higher education institutions across the state.

Methodology

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

Auditors selected non-statistical samples for tests of compliance and controls for each direct and material compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Single Audits* dated February 1, 2015. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. In some cases, auditors used professional judgment to select additional items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

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

Auditors assessed the reliability of data that each audited higher education institution provided and determined that the data was sufficiently reliable for the purpose of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Research and Development Cluster.

Information collected and reviewed included the following:

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

Procedures and tests conducted included the following:

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

Criteria used included the following:

- The Code of Federal Regulations.
- U. S. Office of Management and Budget Circulars A-21, A-102, A-110, and A-133.
- The American Recovery and Reinvestment Act.
- The Federal Funding Accountability and Transparency Act.

- Federal notices of award, award agreements, and award proposals.
- Higher education institution policies and procedures, including disclosure statements (DS-2 statements) and indirect cost rate plans.
- Federal sponsor agency policies and procedures.

Project Information

Audit fieldwork was conducted from September 2015 through January 2016. Except as discussed above in the Independent Auditor’s Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

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