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**An Audit Report on the Role and Usage
of the Texas A&M Research Foundation
(A Nonprofit Organization)**

September 23, 1998

Members of the Legislative Audit Committee:

The Texas A&M University System (System) member agencies should keep better track of the total costs to administer research grants and contracts in house. The total costs of administering research grants and contracts were not readily identifiable by the System member agencies. This information provides data for making decisions about which administrative option is most cost effective: administering the contracts and grants themselves or outsourcing the administration to the Texas A&M Research Foundation (Foundation). Determining accurate costs can identify opportunities for improved efficiencies, which can maximize the use of research dollars.

Total costs should include not only the agency costs, but also those costs to the State that the agency does not see. Examples of "State" costs include the state matching retirement contributions and any costs incurred by an administrative agency (such as the Comptroller of Public Accounts or the General Services Commission) to process transactions or provide services to an agency. Agency costs include such items as accounting, personnel, computer operations, and employee benefits.

The Foundation is a nonprofit organization that exists to administer research grants and contracts for System members. In total, the System and the Foundation administered more than \$241 million in research during fiscal year 1997.

The Foundation should improve its management of its \$71.8 million of fixed assets. It needs to verify the accuracy of inventories taken and improve how missing inventory items are handled. The Foundation has effective business systems in place for purchasing, travel, cash management, and information management.

Of the four main users of the Foundation, one (Texas A&M University) outsources most of its research administration. The other three (Texas Agriculture Experiment Station, Texas Engineering Experiment Station, and Texas Transportation Institute) administer most of their research themselves.

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Why is it important for System member agencies to know the total costs of administering research grants and contracts?

Complete and accurate cost information will help the member agencies make better decisions about who should administer the grants and contracts. When we analyzed the grants and contracts administrative costs provided by the Texas Agriculture Experiment Station, the Texas Engineering Experiment Station, and the Texas Transportation Institute, we noted several inconsistencies, including:

- Wide variances between agencies in the average cost per project raise questions about the completeness of the data.
- Employee benefits were estimated at 22 to 24 percent of salaries, lower than the 40 percent average stated in a recent study of state agencies.

Why is it important that the Foundation have effective controls?

The Foundation administers almost half of the System's research (\$117 million in fiscal year 1997, of the more than \$241 million of total research). Research is one of the primary components of Texas A&M University's mission, and it is the primary reason the Texas Agriculture Experiment Station, the Texas Engineering Experiment Station, and the Texas Transportation Institute exist.

If the Foundation does not effectively administer research grants and contracts, there is an increased risk that:

- Noncompliance with grants and contracts provision could result in lost funding.
- Equipment and property could be lost or stolen.

Objective, Scope, and Methodology

This audit, which had the following two objectives, was conducted in accordance with Government Auditing Standards:

- Determine the cost benefit of outsourcing the administration of System research grants and contracts to the Foundation.
- Determine if the Foundation's controls over key operations effectively minimize risks associated with the administration of research grants and contracts.

The scope of our work included an analysis of costs associated with the administration of research grants and contracts at selected System members and the Foundation. The System members included Texas Engineering Experiment Station, Texas Agriculture Experiment Station, Texas Transportation Institute, and Texas A&M University. We also reviewed the key control systems in place at the Foundation to determine if controls are effective in minimizing risks associated with the administration of research grants and contracts.

The methodology used on this audit included cost analysis, interviews with members of management, and the review of pertinent documents.

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- Setbacks to the research efforts could occur, resulting in the potential loss of talented faculty members (principal investigators).

The System and the Foundation generally concurred with our written recommendations.

We appreciate the cooperation of the System, its member agencies, and the Foundation during our audit. Please call Carol Noble, Audit Manager, at (512) 479-4700 if you have questions or comments.

Sincerely,

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State Auditor

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