



John Keel, CPA  
State Auditor

An Audit Report on

# Texas Southern University's Compliance with U.S. Office of Management and Budget Circular A-133 for Research and Development Funds

May 29, 2008

Members of the Legislative Audit Committee:

In fiscal year 2007, Texas Southern University (University) complied with federal laws and regulations and requirements of federal contracts and grants applicable to federal research and development funds, in accordance with the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*.

Specifically:

- The University expended federal research and development funds for allowable activities and allowable costs. In addition, the University expended funds within the periods of availability of individual grants or contracts.
- The University followed procedures to minimize the time between the transfer of funds from the federal agency and the University's disbursement of those funds. The University requested reimbursements for funds that had already been expended or would be expended within three days of the request for funds.
- The University maintained proper records for equipment purchased with federal funds and adequately safeguarded and maintained this equipment.
- The University followed OMB Circular A-102, OMB Circular A-110, and other procurement requirements specific to research and development grants. The University verified that vendors were not suspended or debarred before making purchases.
- The University filed the appropriate reports with the granting agencies and included all appropriate activities.
- The University monitored time and effort reporting by key personnel named in federal grants or contracts.

#### Research and Development Expenditures for Fiscal Year 2007

Texas Southern University (University) made \$3,943,059 in federal research and development expenditures for fiscal year 2007.

The University received funds from 6 federal agencies and from more than 25 grants and contracts.

The following agencies provided funds to the University:

- U.S. Department of Defense.
- National Aeronautics and Space Administration (NASA).
- U.S. Department of Education.
- U.S. Department of Health and Human Services.
- U.S. Agency for International Development.
- National Science Foundation.

However, most of the University's policies and procedures regarding the use of federal research and development funds referenced only federal and state requirements and did not include University-specific procedures.

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According to OMB Circular A-133, there are 13 federal compliance requirements that are direct and material to the research and development cluster of federal programs. In addition to these compliance requirements, OMB Circular A-133 also requires a review of internal controls over federal research and development expenditures. The following lists specific auditors' findings for the 13 compliance requirements:

- **Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Period of Availability of Federal Funds:** Auditors tested these three areas together because of their similarity. The University expended federal funds on allowable activities and for allowable costs. The majority of the expenditures were for salaries and wages. The University followed the appropriate cost principles in OMB Circular A-21. The University consistently applied the indirect cost rate to the appropriate base and expended federal funds during the period of availability in accordance with the grant agreements. Also, the University had controls in place to determine whether an activity or a cost was allowable and to ensure that costs were expended within the period of availability.
- **Cash Management:** The University requested reimbursement for funds that had already been expended, or would be expended within three days of the request for reimbursement, and minimized the time between the requested reimbursement and the disbursement of these funds. The University had controls in place to ensure that cash draw requests were for funds that had already been expended or would be expended within three days of the request for reimbursement.
- **Davis-Bacon Act:** The University did not have any construction activity in fiscal year 2007 that was funded with federal grant funds. As a result, auditors did not perform any testing of compliance with this requirement.
- **Equipment and Real Property Management:** The University purchased six pieces of capitalized equipment with federal grant funds in fiscal year 2007, and it properly safeguarded and maintained this equipment. In fiscal year 2007, the University did not dispose of any equipment purchased with federal grant funds. The University had controls in place to ensure that capitalized equipment was tagged when it was received and that the tag identified whether the equipment was purchased with federal grant funds. The University also performed an annual physical inventory.
- **Matching, Level of Effort, and Earmarking:** The University did not have any formal matching, level of effort, or earmarking requirements in its fiscal year 2007 federal grants. As a result, auditors did not perform any testing of compliance with this requirement.
- **Procurement and Suspension and Debarment:** The University followed OMB Circular A-102, OMB Circular A-110, and other award-specific procurement requirements. The University verified that vendors were not suspended or debarred for all levels of procurement. Also, the University had controls in place to ensure that the proper approval was obtained for purchases.
- **Program Income:** The University did not earn any program income from federal grants during fiscal year 2007. As a result, auditors did not perform any testing of compliance with this requirement.
- **Real Property Acquisition/Relocation Assistance:** The University did not purchase any real property or provide any relocation assistance with federal grant funds in fiscal year 2007. As a result, auditors did not perform any testing of compliance with this requirement.

- **Reporting:** The University submitted the financial reports required by the granting agencies. These reports included all appropriate reporting period activity and were supported by the University's general ledger data. The University maintained a spreadsheet that included the grants, the reports due for each grant, and the reports' due dates.
- **Subrecipient Monitoring:** The University has only state agencies or universities as subrecipients (pass-through to) in fiscal year 2007. Auditors did not test the monitoring of these subrecipients because state agencies and universities are tested as part of the Statewide Single Audit.
- **Special Tests and Provisions:** No special tests or provisions were required in any of the University's 10 largest federal grants. The 10 largest grants represented 81 percent of the University's total fiscal year 2007 expenditures. Auditors verified that employees named as key personnel in these 10 grant agreements contributed effort to the projects. None of these 10 grant agreements contained specific level of effort provisions.

Also, the University had policies and procedures in place over compliance requirements for federal research and development funds. However, most of these policies and procedures referred only to other requirements, such as state requirements or OMB circulars, and did not include University-specific procedures.

#### Information Technology Overview

In addition to information technology controls related to the above compliance requirements, auditors also reviewed general access controls for reasonableness. The University granted the appropriate access rights to the general ledger system based on the roles and responsibilities of personnel in fiscal year 2007.

#### Recommendation

The University should update its policies and procedures for research and development funds to include University-specific procedures.

#### Summary of Objective, Scope, and Methodology

The objective of this audit was to determine whether Texas Southern University (University) complied with the federal laws, regulations, and requirements of contracts and grants applicable to federal research and development funds, in accordance with the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*.

The audit scope covered the University's federal research and development expenditures for fiscal year 2007 and the controls over these expenditures.

The audit methodology included interviewing University staff, observing staff, and testing expenditures.

Audit fieldwork was conducted from March 2008 through April 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Jennifer Brantley, CPA (Project Manager)
- Joseph Curtis, CIA, CPA
- Gary Leach, MBA, CISA, CQA
- Michael Simon, MBA, CGAP
- Parsons Townsend
- Tony White, CFE
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Verma Elliott, MBA, CIA, CGAP (Audit Manager)

The University agrees with the recommendation in this report, and its responses are included in the attachment. We appreciate the cooperation we received from the University. If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

Attachment

cc: Members of the Texas Southern University Board of Regents  
Mr. Glenn O. Lewis, Chair  
Mr. Richard Salwen, Vice Chair  
Mr. Enrique Javier Loya, Secretary  
Mr. Gary Bledsoe  
Mr. Samuel Bryant  
Mr. Richard C. Holland  
Mr. Richard Knight, Jr.  
Ms. Curtistene McCowan  
Ms. Tracye McDaniel  
Mr. Larry Taylor  
Dr. John M. Rudley, President



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# Attachment

## Texas Southern University's Response

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OFFICE OF THE PRESIDENT  
OFFICE: 713-313-7035; FAX: 713-313-1092

TEXAS SOUTHERN UNIVERSITY  
3100 CLEBURNE STREET • HOUSTON, TEXAS 77004  
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May 19, 2008

Mr. John Keel, CPA  
State Auditor  
Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, TX 78701

Dear Mr. Keel:

In response to the recommendation in the Audit Report on Texas Southern University's Compliance with U.S. Office of Management and Budget Circular A-133 for Research and Development, we concur that the University should update its policies and procedures for research and development funds to include University-specific procedures. To that end, a committee has been designated to update and develop policies and procedures in accordance with OMB Circular A-21, Cost Principles, State and University policies on research grants and contracts. These policies will also include specifics mandated by the granting agencies.

Sincerely,

A handwritten signature in black ink, appearing to read "JR", written over the word "Sincerely,".

John M. Rudley,  
President

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