



A Report on

**State of Texas Compliance with Federal  
Requirements for the Research and  
Development Cluster for the Fiscal Year  
Ended August 31, 2018**

February 2019

Report No. 19-030



A Report on

# State of Texas Compliance with Federal Requirements for the Research and Development Cluster for the Fiscal Year Ended August 31, 2018

SAO Report No. 19-030  
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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 2018.

As a condition of receiving federal funding, Title 2, Code of Federal Regulations, Section 200, requires non-federal entities that expend \$750,000 or more in federal awards in a fiscal year to obtain annual Single Audits. Those audits test compliance with federal requirements in up to 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/cost principles, cash management, and reporting. The requirements for 1 of those 12 areas vary by federal program and outline special tests that auditors are required to perform, such as determining whether a non-federal entity adhered to key personnel commitments specified in the application/proposal or award. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$84,024,032 in federal funds during fiscal year 2018 and (2) other selected federal programs.

From September 1, 2017, through August 31, 2018, the State of Texas expended \$56.0 billion in federal funds. **The State Auditor's Office audited compliance with requirements for the Research and Development Cluster at eight higher education institutions.** Those eight higher education institutions spent \$1.3 billion in federal Research and Development Cluster funds during fiscal year 2018.

### 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.

Source: OMB Compliance Supplement

Auditors identified 27 findings for the Research and Development Cluster, including:

- Twenty-three findings classified as significant deficiencies and non-compliance.
- Four findings classified as significant deficiencies.

(See text box for definitions of finding classifications.)

### Key Points

The higher education institutions audited did not always comply with equipment management requirements for the Research and Development Cluster.

Six higher education institutions audited did not always maintain adequate property records for equipment purchased with federal research and development funds. Those higher education institutions were:

- Texas A&M AgriLife Research.
- Texas A&M University.
- The University of Texas at Austin.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.
- The University of Texas Southwestern Medical Center.

Three higher education institutions audited did not always adequately safeguard equipment. Those higher education institutions were:

- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.
- 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 auditor's determination of whether an instance of non-compliance or a control weakness was material for the purpose of reporting an audit finding is in relation to each type of compliance requirement for the Research and Development Cluster as a whole.**

#### Higher Education Institutions Audited

- Texas A&M AgriLife Research.
- Texas A&M University.
- The University of Texas at Austin.
- The University of Texas Health Science Center at Houston.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.
- The University of Texas Southwestern Medical Center.

The higher education institutions audited did not always comply with financial reporting requirements for the Research and Development Cluster.

Six higher education institutions audited did not always ensure that their federal financial reports were complete, accurate, and supported by applicable accounting records. Those higher education institutions were:

- Texas A&M AgriLife Research.
- Texas A&M University.
- The University of Texas at Austin.
- The University of Texas Health Science Center at Houston.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.

The higher education institutions audited did not always comply with subrecipient monitoring requirements for the Research and Development Cluster.

Four higher education institutions audited (1) did not have adequate policies and procedures in place over subrecipient monitoring processes, (2) did not verify that subrecipients obtained a single audit as required, (3) did not accurately provide all required information to subrecipients, and/or (4) did not consistently monitor subrecipient activities to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward. Those higher education institutions were:

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

The higher education institutions audited did not always comply with key personnel requirements for the Research and Development Cluster.

Four higher education institutions audited did not always ensure that key personnel were involved in federal research and development projects as required. Those higher education institutions were:

- Texas A&M AgriLife Research.
- The University of Texas at Austin.

- The University of Texas Health Science Center at Houston.
- The University of Texas Medical Branch at Galveston.

The higher education institutions audited did not always comply with cash management requirements for the Research and Development Cluster.

Three higher education institutions audited (1) did not identify, track, or remit to the federal government interest earned on federal funds received in advance of program expenses or (2) did not correctly calculate the amount of interest it was required to remit. Those higher education institutions were:

- Texas A&M University.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.

The higher education institutions audited did not always comply with period of performance requirements for the Research and Development Cluster.

Two higher education institutions audited did not always ensure that costs charged to federal awards were (1) allowable, (2) incurred within the period of performance, and/or (3) liquidated within the required time frame. Those higher education institutions were:

- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Southwestern Medical Center.

The higher education institutions audited did not always have adequate controls over key information technology systems used to manage federal research and development programs.

Auditors identified inappropriate access, insufficient segregation of duties, or insufficient controls over change management for key information technology systems at six higher education institutions. Those higher education institutions were:

- Texas A&M AgriLife Research.
- Texas A&M University.
- The University of Texas Health Science Center at Houston.
- The University of Texas Health Science Center at San Antonio.
- The University of Texas M.D. Anderson Cancer Center.
- The University of Texas Medical Branch at Galveston.

**Auditors followed up on higher education institutions' corrective action plans for 10 audit findings from prior fiscal years related to the Research and Development Cluster.**

Higher education institutions fully implemented corrective action plans for 6 (60 percent) of those 10 findings and partially implemented corrective action plans for 4 (40 percent) of those 10 findings.

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

Management generally concurred with the audit findings. Specific management responses, including the views of responsible officials 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) express an opinion on whether the State complied with federal statutes, regulations, and the terms and conditions of federal awards that may 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, 2017, through August 31, 2018. The audit work included control and compliance tests at eight higher education institutions across the state.

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# **Independent Auditor's** Report

*State of Texas Compliance with  
Federal Requirements for the  
Research and Development Cluster for  
the Fiscal Year Ended  
August 31, 2018*

Report on Compliance for the Research and Development Cluster, and  
Report on Internal Control Over Compliance Required by the Uniform  
Guidance

**Independent Auditor's Report**

The Honorable Greg Abbott, Governor  
The Honorable Dan Patrick, Lieutenant Governor  
The Honorable Dennis Bonnen, 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018. 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, 2018. The State does not meet the Uniform Guidance requirements for a program-specific audit and the presentation of the Schedule of Program Expenditures does not conform to the Uniform Guidance 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, 2018.

**Other Matters**

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

Higher Education Institution	Compliance Requirement	Finding Number
Texas A&M AgriLife Research	Equipment and Real Property Management	2018-101
	Reporting	2018-102
	Special Tests and Provisions - Key Personnel	2018-104
Texas A&M University	Cash Management	2018-105
	Equipment and Real Property Management	2018-106
	Reporting	2018-107
University of Texas at Austin	Equipment and Real Property Management	2018-109
	Reporting	2018-110
	Subrecipient Monitoring	2018-111
	Special Tests and Provisions - Key Personnel	2018-112
University of Texas Health Science Center at Houston	Reporting	2018-113
	Subrecipient Monitoring	2018-114

Higher Education Institution	Compliance Requirement	Finding Number
	Special Tests and Provisions - Key Personnel	2018-115
University of Texas M.D. Anderson Cancer Center	Cash Management	2018-118
	Equipment and Real Property Management	2018-119
	Period of Performance Reporting	2018-120
University of Texas Medical Branch at Galveston	Cash Management	2018-122
	Equipment and Real Property Management	2018-123
	Reporting	2018-124
	Special Tests and Provisions - Key Personnel	2018-125
University of Texas Southwestern Medical Center	Equipment and Real Property Management	2018-126
	Period of Performance	2018-127

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 the Uniform Guidance, 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 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 have not been 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	Compliance Requirement	Finding Number
Texas A&M AgriLife Research	Equipment and Real Property Management	2018-101
	Activities Allowed or Unallowed	
	Allowable Costs/Cost Principles	
	Cash Management	
	Matching, Level of Effort, Earmarking	
	Period of Performance	
	Reporting	2018-102
Texas A&M University	Subrecipient Monitoring	2018-103
	Special Tests and Provisions - Key Personnel	2018-104
	Cash Management	2018-105
	Activities Allowed or Unallowed	
University of Texas at Austin	Allowable Costs/Cost Principles	
	Matching, Level of Effort, Earmarking	
	Period of Performance	
	Procurement and Suspension and Debarment	
	Special Tests and Provisions - Key Personnel	
	Equipment and Real Property Management	2018-106
	Reporting	2018-107
University of Texas at Austin	Subrecipient Monitoring	2018-108
	Equipment and Real Property Management	2018-109
	Reporting	2018-110
University of Texas at Austin	Subrecipient Monitoring	2018-111

Higher Education Institution	Compliance Requirement	Finding Number
	Special Tests and Provisions - Key Personnel	2018-112
University of Texas Health Science Center at Houston	Reporting	2018-113
	Subrecipient Monitoring	2018-114
	Special Tests and Provisions - Key Personnel	2018-115
	Activities Allowed or Unallowed Allowable Costs/Cost Principles	
University of Texas Health Science Center at San Antonio	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2018-116
	Special Tests and Provisions - Key Personnel	
University of Texas M.D. Anderson Cancer Center	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2018-117
	Program Income	
	Special Tests and Provisions - Key Personnel	
	Cash Management	2018-118
	Equipment and Real Property Management	2018-119
	Period of Performance	2018-120
	Reporting	2018-121
University of Texas Medical Branch at Galveston	Cash Management	2018-122
	Period of Performance	
	Procurement and Suspension and Debarment	
	Equipment and Real Property Management	2018-123
	Reporting	2018-124
	Special Tests and Provisions - Key Personnel	2018-125
	Activities Allowed or Unallowed Allowable Costs/Cost Principles	
University of Texas Southwestern Medical Center	Equipment and Real Property Management	2018-126
	Period of Performance	2018-127

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 the Uniform Guidance. 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, 2018, 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, 2018*.

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

February 21, 2019

Schedule of Federal Program Expenditures for the  
Research and Development Cluster for the State of Texas  
For the Year Ended August 31, 2018

Schedule of Federal Program Expenditures			
Higher Education Institution Audited	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Texas A&M AgriLife Research	\$ 8,508,066	\$ 62,552,709	\$ 71,060,775
Texas A&M University	8,997,532	105,957,938	114,955,470
University of Texas at Austin	32,832,932	368,733,175	401,566,107
University of Texas Health Science Center at Houston	16,300,253	106,531,784	122,832,037
University of Texas Health Science Center at San Antonio	7,391,540	78,869,174	86,260,714
University of Texas M.D. Anderson Cancer Center	12,006,638	182,417,739	194,424,377
University of Texas Medical Branch at Galveston	6,007,543	96,280,926	102,288,469
University of Texas Southwestern Medical Center	16,667,033	177,946,915	194,613,948
Total Audited Research and Development Federal Program Expenditures	\$ 108,711,537	\$ 1,179,290,360	\$ 1,288,001,897
<p><b>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete</b> 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, 2018</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 \$480,767,552 for the fiscal year ended August 31, 2018.</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, 2018</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, 2018*

## Summary of Auditor's Results

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### 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, 2018*.

### 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 Title 2, Code of Federal Regulations, Section 200.516(a)? Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Cluster	Research and Development

Dollar threshold used to distinguish between type A and type B programs: \$84,024,032

Auditee qualified as low-risk auditee? No

Section 2:

## ***Financial Statement Findings***

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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, 2018*.

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 Title 2, Code of Federal Regulations, Section 200.516(a).

**Texas A&M AgriLife Research**

Reference No. 2018-101

**Equipment and Real Property Management**

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Cash Management**

**Matching, Level of Effort, Earmarking**

**Period of Performance**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Equipment Property Records

A recipient’s property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)).

Questioned Cost: \$ 0  
U.S. Department of Agriculture  
U.S. Environmental Protection Agency  
U.S. Department of Energy  
U.S. Department of Health and Human Services

**Texas A&M AgriLife Research (AgriLife) did not maintain complete and accurate property records for 31 (52 percent) of 60 equipment items tested. Specifically:**

- For 25 equipment items, AgriLife did not maintain in its property records some or all of the funding source information. For 14 of those items, AgriLife maintained the catalog of federal domestic assistance (CFDA) number and the federal awarding agency; however, it did not maintain the federal award number. For 11 of those items, AgriLife did not maintain any federal award information in its property records. AgriLife asserted that for older awards, the award information may not have transferred when its information technology system was converted.
- For 4 equipment items, the serial number was missing from the property record or the serial number was inaccurate in the property record. Those errors occurred because AgriLife did not enter that information into its property records accurately or because it did not always follow its policies and procedures to update property records as needed.
- For 1 equipment item, AgriLife did not maintain any federal award information and the serial number was inaccurate in the property record.

**TEXAS A&M AGRILIFE RESEARCH**

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- For 1 equipment item, the location of the item was inaccurate. That item had been transferred to surplus; however, the property record had not been updated to reflect the transfer.

**In addition, for 6 (75 percent) of 8 equipment disposals reviewed, AgriLife did not maintain some or all of the funding source information in its property records.** For 1 of those equipment items, AgriLife maintained the CFDA number and the federal awarding agency; however, it did not maintain the federal award number. For 5 of those equipment items, AgriLife did not maintain any federal award information in its property records. Without federal award information, auditors were unable to determine if AgriLife followed any applicable federal awarding agency disposition instructions.

Not maintaining complete and accurate property records increases the risk that equipment may be lost, stolen, or improperly disposed.

The following awards were affected by the issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.200	Grants for Agricultural Research, Special Research Grants	99-34402-7589	June 15, 1999, to June 30, 2001
10.200	Grants for Agricultural Research, Special Research Grants	Unknown	Unknown
10.206	Grants for Agricultural Research_Compertitive Research Grants	99-35102-8526	December 1, 1999, to November 30, 2002
66.460	Nonpoint Source Implementation Grants	04-18-TAESBRC-2005	August 1, 2005, to June 15, 2009
81.087	Renewable Energy Research and Development	NAABB #28302-P	April 1, 2010, to March 31, 2013
93.859	Biomedical Research and Research Training	1-R01-GM62326-01A1	June 1, 2001, to May 31, 2007

Other awards were affected by the issues discussed above; however, because AgriLife did not maintain the award information, a complete list of awards affected could not be determined.

Other Compliance Areas

Although the general control weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, matching, level of effort, earmarking, and period of performance, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**AgriLife did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, AgriLife did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. AgriLife also did not consistently ensure that access to system accounts was limited only to users who needed access.

AgriLife did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

AgriLife should:

- Strengthen controls to ensure that it updates and maintains accurate property records and that its property records include all required information.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M AgriLife Research acknowledges and agrees with the findings. Texas A&M AgriLife Research will work to develop and implement corrective action.*

Corrective Action Plan:

Equipment

*Texas A&M AgriLife Research is currently conducting their annual inventory certification. During this process, AgriLife will work with the departments to ensure that location information is correct, verify serial numbers, and ensure assets tags are affixed to the asset. AgriLife Research Property Management will also communicate with the units the importance of the appropriate disposal methods when assets are no longer in their possession. Property Management will also strengthen departmental asset spot audits conducted annually by dedicating a percentage of the audits for federally funded assets.*

*Property records for assets purchased prior to the system software conversion prior to 2000 are available, but with limited information. The current grants management system, MAESTRO maintains the award documents, including CFDA numbers, and will remain in the system.*

*Implementation Date: March 31, 2019*

*Responsible Person: Jared Kotch*

General Controls

*Texas A&M AgriLife Research will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.*

*Implementation Date: August 2019*

*Responsible Person: Mark Schulz*

**TEXAS A&M AGRILIFE RESEARCH**

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Reference No. 2018-102

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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 Agriculture  
 U.S. Department of Commerce  
 U.S. Department of Defense  
 U.S. Department of Interior  
 U.S. Department of Justice  
 U.S. Department of State  
 National Aeronautics and  
 Space Administration  
 U.S. Department of Energy  
 U.S. Department of Health and  
 Human Services

**Texas A&M AgriLife Research (AgriLife) did not ensure that its financial reports were accurate and complete.** Specifically, for 24 (40 percent) of 60 reports tested, AgriLife incorrectly reported one or more of the following reporting elements: federal award number, award period, or reporting period end date in the cover information section of SF-425 reports; financial activity in the federal expenditures and unobligated balance, recipient share, and indirect expense sections of SF-425 reports; or expenditure information on other required financial reports.

In addition, AgriLife did not correctly report the basis of accounting it used to prepare its financial reports. AgriLife uses modified accrual accounting and prepares financial reports on the accrual accounting basis, unless the federal agency or pass-through entity requires reporting on the cash accounting basis. While AgriLife correctly prepared its financial reports on the accrual accounting basis, it incorrectly reported that it used the cash accounting basis on 42 (70 percent) of 60 reports tested.

Those errors occurred because of manual errors AgriLife made when preparing the financial reports and because for the majority of fiscal year 2018, AgriLife did not have policies and procedures in place to help ensure that it completed reports in accordance with SF-425 instructions. In addition, while AgriLife had a process in place for reviewing and approving financial reports prior to submission, that review and approval process was not sufficient to ensure that the financial reports it submitted were accurate and complete.

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

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.001	Agricultural Research Basic and Applied Research	58-5348-2-385	August 30, 2012, to July 31, 2017
10.001	Agricultural Research Basic and Applied Research	58-3091-6-028	September 1, 2016, to August 31, 2017

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.001	Agricultural Research Basic and Applied Research	58-5090-6-066	September 1, 2016, to August 31, 2017
10.001	Agricultural Research Basic and Applied Research	58-3094-7-017	September 1, 2017, to August 31, 2018
10.001	Agricultural Research Basic and Applied Research	58-8042-7-070	September 1, 2017, to December 31, 2018
10.001	Agricultural Research Basic and Applied Research	59-8042-6-003	April 1, 2016, to July 31, 2019
10.001	Agricultural Research Basic and Applied Research	58-3042-6-066	August 1, 2016, to July 31, 2021
10.001	Agricultural Research Basic and Applied Research	58-6066-5-048	August 15, 2015, to December 31, 2019
10.001	Agricultural Research Basic and Applied Research	58-3098-7-003	January 2, 2017, to December 31, 2017
10.001	Agricultural Research Basic and Applied Research	59-3091-7-002	October 1, 2016, to May 31, 2021
10.001	Agricultural Research Basic and Applied Research	58-3090-5-008	September 1, 2015, to August 31, 2020
10.001	Agricultural Research Basic and Applied Research	58-3070-6-027	September 15, 2016, to September 14, 2018
10.001	Agricultural Research Basic and Applied Research	58-3094-6-020	September 18, 2016, to August 31, 2018
10.025	Plant and Animal Disease, Pest Control, and Animal Care	16-9794-2543-CA	September 30, 2016, to September 29, 2018
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AP17VSSPRS00C126	September 30, 2017, to September 29, 2019
10.291	Agricultural and Food Policy Research Centers	58-0111-17-003	August 1, 2017, to April 30, 2019

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.309	Specialty Crop Research Initiative	2016-51181-25422	September 1, 2016, to August 31, 2018
10.310	Agriculture and Food Research Initiative (AFRI)	2017-67012-25999	December 15, 2016, to December 14, 2018
10.310	Agriculture and Food Research Initiative (AFRI)	2016-67015-24923	February 15, 2016, to February 14, 2020
10.310	Agriculture and Food Research Initiative (AFRI)	2016-67015-24958	March 1, 2016, to February 29, 2020
10.310	Agriculture and Food Research Initiative (AFRI)	2017-68008-26205	March 15, 2017, to March 14, 2020
10.606	Food for Progress	DOM001-16-03 (AgriLife received funds as a pass-through from the National Cooperative Business Association)	August 1, 2016, to July 31, 2019
10.652	Forestry Research	15-JV-11330126-065	July 23, 2015, to July 22, 2020
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship	BF-CR-15-001	June 25, 2015, to July 31, 2017
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship	BF-CR-15-016	August 25, 2015, to December 31, 2017
10.902	Soil and Water Conservation	68-7442-17-028	September 11, 2017, to September 30, 2018
10.902	Soil and Water Conservation	68-7482-17-016	September 20, 2017, to September 30, 2019
10.902	Soil and Water Conservation	68-7442-15-532	September 21, 2015, to December 31, 2017
10.902	Soil and Water Conservation	68-7442-17-046	September 22, 2017, to September 30, 2018
10.912	Environmental Quality Incentives Program	69-3A75-17-286	September 19, 2017, to July 31, 2020

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.912	Environmental Quality Incentives Program	69-3A75-14-245	September 26, 2014, to September 30, 2017
10.960	Technical Agricultural Assistance	TA-CR-16-036-FI-Q3-17	September 1, 2016, to August 31, 2017
10.960	Technical Agricultural Assistance	TA-CR-16-041	September 19, 2016, to September 30, 2018
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	NA15NMF4270344	September 1, 2015, to August 31, 2018
12.300	Basic and Applied Scientific Research	W9126G-16-2-0010	September 2, 2016, to March 2, 2018
15.945	Cooperative Research and Training Programs – Resources of the National Park System	P16AC00917	August 31, 2016, to December 31, 2018
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	2015-DN-BX-K020	January 1, 2016, to June 30, 2019
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	2016-DN-BX-0204	March 14, 2017, to December 31, 2019
19.021	Investing in People in the Middle East and North Africa	S-TS800-15-CA-034/PDPR 03	September 21, 2015, to September 30, 2017
43.003	Exploration	NNX15AD64G	January 7, 2015, to January 2, 2018
81.087	Renewable Energy Research and Development	DE-EE0007104	April 15, 2016, to December 31, 2018
93.103	Food and Drug Administration Research	5U18FD005013	September 1, 2013, to December 31, 2017
93.103	Food and Drug Administration Research	1U18FD004638-01	September 15, 2012, to September 14, 2017
93.351	Research Infrastructure Programs	5T35OD010991-13	August 2, 2004, to February 28, 2020

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.837	Cardiovascular Disease Research	1R56HL122612-01A1	September 14, 2015, to August 31, 2017
93.855	Allergy and Infectious Diseases Research	5R21AI107135-03	August 18, 2014, to December 31, 2017

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**AgriLife did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, AgriLife did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. AgriLife also did not consistently ensure that access to system accounts was limited only to users who needed access.

AgriLife did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

AgriLife should:

- Strengthen controls to ensure that the financial reports it submits are complete and accurate.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M AgriLife Research acknowledges and agrees with the findings. Texas A&M AgriLife Research and Texas A&M Sponsored Research Services will work to develop and implement corrective action.*

Corrective Action Plan:

Reporting

*Texas A&M Sponsored Research Services has revised written procedures to increase the level of guidance provided to staff who prepare federal financial reports (SF-425). Additional monitoring controls will be implemented to promote the completeness and accuracy of financial reports.*

*Implementation Date: February 2019*

*Responsible Person: Diane Hassel*

General Controls

Texas A&M AgriLife Research will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.

Implementation Date: August 2019

Responsible Person: Mark Schulz

Reference No. 2018-103

**Subrecipient Monitoring**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Statistically valid sample – No and not intended to be a statistically valid sample**

**Type of finding – Significant Deficiency**

Pass-through entities are required 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. The pass-through entity may consider such factors as the subrecipient’s prior experience with the same or similar subawards, the results of previous audits, whether the subrecipient has new personnel or new or substantially changed systems, and the extent and results of federal awarding agency monitoring (Title 2, Code of Federal Regulations (CFR), Section 200.331(b)). The pass-through entity must monitor the activities of each subrecipient as necessary to ensure that a 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)).

Questioned Cost: \$ 0  
Federal agencies that award R&D funds

When establishing a new subaward, Texas A&M AgriLife Research (AgriLife) uses a subrecipient risk assessment template that allows it to assess risk based on criteria such as the amount of a subaward, cost sharing requirements, and previous audit findings. Based on the results of the risk assessment, AgriLife determines for the subrecipient an overall risk level of low, medium, or high.

**AgriLife did not have adequate policies and procedures in place over its subrecipient monitoring processes.** Specifically:

- AgriLife’s policies do not address additional monitoring tools for medium- or high-risk subrecipients to ensure proper accountability and compliance with program requirements. According to AgriLife’s policy, certain executive approval is required before an award is made to a medium- or high-risk subrecipient; however, the policy does not address any additional monitoring those subrecipients should receive after the award is executed. Auditors observed examples of low- and medium-risk assessments during testing.

- AgriLife’s policy requires subrecipient expenditures to be reviewed for allowability; however, that policy does not specify what level of detail should be included in the subrecipient’s invoice. For example, one subrecipient’s invoice totaling \$8,973 included only a date and the subaward number and did not include an itemized list of expenses, budget categories, or any other information regarding the type of expenses that invoice covered.

Insufficient monitoring policies and procedures for subrecipients increases the risk that AgriLife would not detect subrecipients’ noncompliance with federal statutes, regulations, and terms and conditions of the subaward.

Recommendation:

AgriLife should strengthen its policies and procedures over subrecipient monitoring to ensure that it appropriately evaluates risk of noncompliance and performs monitoring procedures based on identified risks.

Views of Responsible Officials:

*Texas A&M AgriLife Research acknowledges and agrees with the findings. Texas A&M AgriLife Research and Texas A&M Sponsored Research Services will work to develop and implement corrective action.*

Corrective Action Plan:

*Texas A&M Sponsored Research Services will revise procedures to include additional monitoring tools that may be used in evaluating the performance of subrecipients considered high risk.*

*Texas A&M Sponsored Research Services will revise procedures to include additional detail on ensuring allowability of subrecipient expenditures.*

*Implementation Date: June 2019*

*Responsible Person: Julie Bishop*

Reference No. 2018-104

**Special Tests and Provisions – Key Personnel**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Key Personnel

A recipient of federal awards must obtain approval from federal awarding agencies for (1) changes to a key person specified in the application or the federal award, or (2) 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 (Title 2, Code of Federal Regulations (CFR), Section 200.308(c)(1)).

<p>Questioned Cost: \$ 0</p> <p>U.S Department of Agriculture U.S Department of Health and Human Services U.S Agency for International Development</p>
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**Texas A&M AgriLife Research (AgriLife) did not consistently ensure that key personnel were involved in projects as required.** Specifically, for 5 (8 percent) of 60 projects tested, the key personnel specified in the award agreement did not meet the identified level of involvement for fiscal year 2018. AgriLife did not obtain approval from the federal awarding agency for changes to the level of involvement for the key

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personnel for all 5 of those projects. Those errors occurred because AgriLife did not have a process in place to monitor changes in the level of involvement for key personnel.

Not obtaining prior approval for reductions in the level of involvement, or disengagement from the project, for key personnel may result in federal sponsors being unaware of changes to key personnel.

The following awards were affected by the issue discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.310	Agriculture and Food Research Initiative (AFRI)	2017-68007-26318	May 1, 2017, to April 30, 2019
93.103	Food and Drug Administration Research	5U18FD005608-03	September 1, 2015, to August 31, 2020
93.113	Environmental Health	5R01ES025713-03	June 1, 2016, to May 31, 2021
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R21NS093487-02	June 15, 2015, to May 31, 2018
98.001	USAID Foreign Assistance for Programs Overseas	AID-OAA-A-13-00003	November 8, 2012, to September 30, 2022

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**AgriLife did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, AgriLife did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. AgriLife also did not consistently ensure that access to system accounts was limited only to users who needed access.

AgriLife did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

AgriLife should:

- Strengthen its processes for identifying changes to key personnel requiring approval from the federal sponsor and ensure that it requests approval from the federal sponsor prior to those changes taking effect.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M AgriLife Research acknowledges and agrees with the findings. Texas A&M AgriLife Research and Texas A&M Sponsored Research Services will work to develop and implement corrective action.*

Corrective Action Plan:

Key Personnel

*Texas A&M Sponsored Research Services will strengthen controls designed to ensure changes to key personnel requiring approval from the federal sponsor are identified. Approval will be requested prior to key personnel changes taking effect.*

*Implementation Date: August 2019*

*Responsible Person: Julie Bishop*

General Controls

*Texas A&M AgriLife Research will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.*

*Implementation Date: August 2019*

*Responsible Person: Mark Schulz*

**Texas A&M University**

Reference No. 2018-105

**Cash Management**

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Matching, Level of Effort, Earmarking**

**Period of Performance**

**Procurement and Suspension and Debarment**

**Special Tests and Provisions - Key Personnel**

**Research and Development Cluster**

**Award years – See Below**

**Award numbers – See Below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Interest on Advances

A non-federal entity must maintain advances of federal funds in interest-bearing accounts unless: (1) the non-federal entity 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 \$500 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 200.305(b)(8)). Interest earned up to \$500 per year may be retained by the non-federal entity for administrative expense. Any additional interest earned on federal advance payments deposited in interest-bearing accounts must be remitted annually to the U.S. Department of Health and Human Services Payment Management System (Title 2, CFR, Section 200.305(b)(9)).

Questioned Cost: \$ 707  
U.S. Department of Defense  
U.S. Department of Education

Texas A&M University (University) includes the Texas A&M Health Science Center (Health Science Center), which is an academic unit under the administration of the University. The University also has a branch campus, Texas A&M University at Galveston.

**The University did not correctly calculate the amount of interest it was required to remit to the U.S. Department of Health and Human Services.** While the University has a process to track federal projects that receive advances of federal funds and to calculate and remit interest earned on those advances, it separately tracks interest and calculates the amount to remit for the Health Science Center and its branch campus. As a result, the University separately retained \$500 for administrative expenses for the Health Science Center, instead of retaining only \$500 for the University as a whole. Texas A&M University at Galveston did not earn any interest.

In addition, the University did not correctly calculate the full amount of interest earned because when it calculated the interest earned, it netted the positive cash balances of projects for which it received advances with negative cash balances of projects that had expenditures that preceded the federal advances. Instead, it should have calculated the interest earned only on the advances of federal funds. As a result, the University should have remitted an additional \$207 in interest.

**TEXAS A&M UNIVERSITY**

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The following awards were affected by the issue described above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-15-1-0389	September 30, 2015, to September 29, 2019
12.420	Military Medical Research and Development	W81XWH-13-1-0279	September 15, 2013, to March 14, 2017
12.420	Military Medical Research and Development	W81XWH-14-1-0572	September 30, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-14-1-0558	September 30, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-15-1-0340	September 30, 2015, to September 29, 2018
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	12905 (the University received funds as a pass-through from the Texas Higher Education Coordinating Board)	February 1, 2014, to April 30, 2016

Other Compliance Areas

Although the general control weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, matching, level of effort, earmarking, period of performance, procurement and suspension and debarment, and special tests and provisions – key personnel, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The University did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, the University did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. The University also did not consistently ensure that access to system accounts was limited only to users who needed access.

The University did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The University should:

- Ensure that it retains only the total amount allowed of interest earned for administrative expense.
- Ensure that it calculates the interest earned only on the advances of federal funds.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M University acknowledges and agrees with the findings. Texas A&M University will work to develop and implement corrective action.*

Corrective Action Plan:

Interest on Advances

*Annually, Texas A&M will combine the interest calculations for Texas A&M University, Texas A&M Health Science Center, and Texas A&M University at Galveston to determine the correct amount of earned interest to remit to the U.S. Department of Health and Human Services. No more than \$500 will be retained. The University will ensure that interest earned will be calculated only on advances of federal funds.*

*Implementation Date: February 2019*

*Responsible Person: Diane Hassel*

General Controls

*The University will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.*

*Implementation Date: August 2019*

*Responsible Person: Mark Schulz*

Reference No. 2018-106

## Equipment and Real Property Management

### Research and Development Cluster

Award years – See below

Award numbers – See below

Statistically valid sample – No and not intended to be a statistically valid sample

Type of finding – Significant Deficiency and Non-Compliance

### Equipment Property Records

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)).

Questioned Cost: \$ 0

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

In addition, Texas A&M University (University) is required by its *Departmental Property Management Procedures Manual (Manual)* to affix an inventory tag to new equipment items within 10 days of receipt.

**The University did not maintain accurate property records for 8 (13 percent) of 62 equipment items tested.** Specifically:

- For 5 items, the equipment was located in an off-campus warehouse instead of the location specified in the property record. All 5 of those items did not have an inventory tag affixed as required by the University's policy and 3 items also did not have a serial number or other identification number to link the item to the property record. The University asserted that inventory tags were not affixed to those 5 items because they are regularly sanitized in high temperature water. However, the University's *Manual* suggests various methods of affixing tags on items that are too small, delicate, or in inhospitable conditions for standard tags, and the University did not use any of those methods to affix tags.
- For 2 items, the equipment was on long-term loan and the property records were not updated to reflect that the items were not located on campus. The University asserted that the location was purposely not updated for the items so that the property manager would know whom to contact within the University for information about the items; however, according to the University's policy, the property records should reflect the off-campus location of each item.
- For 1 item, the principal investigator took the equipment to a different university without following the University's process to inform the property management department. As a result, the location and disposition of the item was not accurately reflected in the property records.

Not maintaining accurate property records increases the risk that equipment may be lost, stolen, or not adequately safeguarded.

### Equipment Disposition

The University's *Manual* requires University departments to submit specific forms to the University's property management department depending on the method used to dispose of any equipment.

**For 2 (50 percent) of 4 equipment disposals tested, the University did not dispose of equipment in accordance with its policy.** Specifically, the University incorrectly recorded that it disposed of the two equipment items due to them being missing; however, the University had disposed one item by transferring it to surplus and disposed the other item because it was obsolete. Those items were recorded as missing

because the department that had custody of the equipment used the University’s missing asset form to process the disposals rather than the forms for transferring assets to the University’s surplus or adding/deleting property records for obsolete assets. As a result, the disposition information in the property records for both items was inaccurate.

The following awards were affected by the equipment issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
11.419	Coastal Zone Management Administration Awards	01-507R	April 1, 2001, to July 31, 2001
11.419	Coastal Zone Management Administration Awards	02-329R	March 6, 2002, to March 31, 2002
47.049	Mathematical and Physical Sciences	PHY-1120138  (the University received funds as a pass-through from Princeton University)	January 1, 2016, to June 30, 2017
47.049	Mathematical and Physical Sciences	AST-0647970  (the University received funds as a pass-through from the Association of Universities for Research in Astronomy, Inc.)	April 12, 2016, to April 12, 2018
47.050	Geosciences	OCE-0849246	October 1, 2008, to November 30, 2012
93.389	National Center for Research Resources	1G20RR14311-01A1	September 1, 2000, to August 31, 2004

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The University did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, the University did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. The University also did not consistently ensure that access to system accounts was limited only to users who needed access.

The University did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The University should:

- Strengthen controls to ensure that it updates and maintains accurate property records and adequately safeguards equipment.
- Ensure that it appropriately affixes inventory tags to equipment in accordance with its policies and procedures.
- Strengthen controls to ensure that it documents the disposal of equipment in accordance with its policies and procedures.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M University acknowledges and agrees with the findings. Texas A&M University will work to develop and implement corrective action.*

Corrective Action Plan:

Equipment

*The University is in the process of correcting the exceptions noted in the audit finding. To reduce errors in the future, Texas A&M University Property Management will initiate a campus-wide campaign via email and other communication methods to increase awareness of the importance of updating location information and serial numbers for all assets, identifying assets with inventory numbers or other acceptable options, and notifying Property Management for appropriate disposal when assets are no longer in their possession. Property Management will also strengthen departmental asset spot audits conducted annually by dedicating a percentage of the audits for federally funded assets.*

*Implementation Date: February 2019*

*Responsible Person: Todd Gregory*

General Controls

*The University will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.*

*Implementation Date: August 2019*

*Responsible Person: Mark Schulz*

Reference No. 2018-107

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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 Agriculture  
 U.S. Department of Commerce  
 U.S. Department of Defense  
 U.S. Department of the Interior  
 U.S. Department of Justice  
 U.S. Department of  
 Transportation  
 National Aeronautics and  
 Space Administration  
 U.S. Department of Energy  
 U.S. Department of Health and  
 Human Services

**Texas A&M University (University) did not ensure that its financial reports were accurate and complete.** Specifically, for 34 (57 percent) of 60 reports tested, the University incorrectly reported one or more of the following reporting elements: recipient account number or award period in the cover information section of SF-425 reports; financial activity in the federal expenditures and unobligated balance, recipient share, and indirect expense sections of SF-425 reports; or cost share information on other required financial reports.

In addition, the University did not correctly report the basis of accounting it used to prepare its financial reports. The University uses modified accrual accounting and prepares financial reports on the accrual accounting basis, unless the federal agency or pass-through entity requires reporting on the cash accounting basis. While the University correctly prepared its financial reports on the accrual accounting basis, it incorrectly reported that it used the cash accounting basis for 44 (73 percent) of 60 reports tested.

Those errors occurred because of manual errors the University made when preparing the financial reports and because for the majority of fiscal year 2018, the University did not have policies and procedures in place to help ensure that it completed reports in accordance with SF-425 instructions. In addition, while the University had a process in place to review and approve financial reports prior to submission, it did not have documentation showing that it completed that review and approval for 11 (18 percent) of 60 reports tested. That review and approval process also was not sufficient to ensure that the financial reports it submitted were accurate and complete. Inaccurate information in financial reports increases the risk that federal agencies and pass-through entities could rely on inaccurate information to manage and monitor their awards.

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

CFDA No.	CFDA Title	Award Number	Award Year
10.001	Agricultural Research Basic and Applied Research	OAO-HSINP-17-1	December 22, 2016, to September 30, 2017
10.001	Agricultural Research Basic and Applied Research	OAO-HSINP-18-2	March 12, 2018, to September 30, 2018

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
10.903	Soil Survey	68-7482-15-526	September 9, 2015, to December 31, 2017
10.950	Agricultural Statistics Reports	58-3AEU-7-0075	June 1, 2017, to May 31, 2018
11.012	Integrated Ocean Observing System (IOOS)	NA16NOS0120018	June 1, 2016, to May 31, 2019
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	NA16NMF4270221	September 1, 2016, to August 31, 2019
12.351	Scientific Research - Combating Weapons of Mass Destruction	HDTRA1-13-1-003	October 22, 2012, to October 31, 2017
12.351	Scientific Research - Combating Weapons of Mass Destruction	HDTRA1-14-1-0004	November 15, 2013, to December 31, 2018
12.420	Military Medical Research and Development	W81XWH-14-1-0558	September 1, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-15-1-0340	September 30, 2015, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-17-1-0446	September 1, 2017, to August 31, 2020
12.431	Basic Scientific Research	W911NF15-1-0517	August 5, 2015, to February 4, 2019
15.423	Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	M14AC00028	September 27, 2014, to September 30, 2019
15.663	National Fish and Wildlife Foundation	0104.13.040537	January 1, 2014, to December 31, 2017
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	2016-R2-CX-0054	January 1, 2017, to June 30, 2019
20.215	Highway Training and Education	DTFH6416G00050	September 29, 2016, to September 29, 2017

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
43.001	Science	NNX13AG91G	February 11, 2013, to February 10, 2018
43.001	Science	NNX12AL90G	September 1, 2012, to August 31, 2017
43.001	Science	NNX14AD52G	January 16, 2014, to January 16, 2019
43.001	Science	NNX14AF15G	April 1, 2014, to March 31, 2018
43.008	Education	NNX12AL64A	July 10, 2012, to August 18, 2017
81.049	Office of Science Financial Assistance Program	NNX16AR29G	June 1, 2015, to June 30, 2018
81.049	Office of Science Financial Assistance Program	DE-FG02-93ER40773	January 1, 2005, to December 31, 2018
81.049	Office of Science Financial Assistance Program	DE-SC0010813	August 1, 2013, to March 31, 2019
81.049	Office of Science Financial Assistance Program	DE-SC0010713	September 1, 2013, to August 31, 2018
81.049	Office of Science Financial Assistance Program	DE-SC0012582	September 15, 2014, to September 14, 2018
81.049	Office of Science Financial Assistance Program	DE-SC0013543	April 1, 2015, to March 31, 2018
81.049	Office of Science Financial Assistance Program	DE-SC0014036	June 1, 2015, to June 30, 2018
81.049	Office of Science Financial Assistance Program	DE-SC0014037	July 1, 2015, to June 30, 2019
81.049	Office of Science Financial Assistance Program	DE-SC0014154	August 15, 2015, to May 14, 2019
81.049	Office of Science Financial Assistance Program	DE-SC0015636	June 1, 2016, to June 14, 2019
81.049	Office of Science Financial Assistance Program	DE-SC0016243	August 15, 2016, to August 14, 2017

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
81.049	Office of Science Financial Assistance Program	DE-SC0017859	May 31, 2017, to March 31, 2019
81.049	Office of Science Financial Assistance Program	DE-SC0017864	August 1, 2017, to July 31, 2019
81.121	Nuclear Energy Research, Development, and Demonstration	DE-EM0004381	October 1, 2016, to September 30, 2019
93.059	Training in General, Pediatric, and Public Health Dentistry	T93HP30393	September 1, 2016, to August 31, 2021
93.173	Research Related to Deafness and Communication Disorders	2R56DC0003086-21	June 7, 2018, to May 31, 2019
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK099221-03	September 1, 2013, to May 31, 2017
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS083460-05	September 1, 2017, to August 31, 2019
93.855	Allergy and Infectious Diseases Research	5R03AI103627-02	August 6, 2013, to July 31, 2017

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The University did not appropriately restrict user access to certain systems it uses to manage its research and development programs.** Specifically, the University did not always promptly remove user accounts when an employee transferred to a new position or otherwise no longer needed access. The University also did not consistently ensure that access to system accounts was limited only to users who needed access.

The University did not have a process to perform documented user access reviews for all system levels. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The University should:

- Strengthen controls to ensure that the financial reports it submits are complete and accurate.
- Ensure that user access is appropriately limited to employees based on job responsibilities.
- Implement a process to perform periodic user access reviews at all system levels.

Views of Responsible Officials:

*Texas A&M University acknowledges and agrees with the findings. Texas A&M University will work to develop and implement corrective action.*

Corrective Action Plan:

Reporting

*Texas A&M Sponsored Research Services has revised written procedures to increase the level of guidance provided to staff who prepare federal financial reports (SF-425). Additional monitoring controls will be implemented to promote the completeness and accuracy of financial reports.*

*Implementation Date: February 2019*

*Responsible Person: Diane Hassel*

General Controls

*The University will continue to work with the Texas A&M System Chief Information Officer to improve existing information security controls in order to appropriately limit user access and to promptly remove or change user accounts when user needs change.*

*Implementation Date: August 2019*

*Responsible Person: Mark Schulz*

Reference No. 2018-108

**Subrecipient Monitoring**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Statistically valid sample – No and not intended to be a statistically valid sample**

**Type of finding – Significant Deficiency**

Pass-through entities are required 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. The pass-through entity may consider such factors as the subrecipient's prior experience with the same or similar subawards, the results of previous audits, whether the subrecipient has new personnel or new or substantially changed systems, and the extent and results of federal awarding agency monitoring (Title 2, Code of Federal Regulations (CFR), Section 200.331(b)). The pass-through entity must monitor the activities of each subrecipient as necessary to ensure that a 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

Questioned Cost: \$ 0
Federal agencies that award R&D funds

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)).

When establishing a new subaward, Texas A&M University (University) uses a subrecipient risk assessment template that allows it to assess risk based on criteria such as the amount of a subaward, cost sharing requirements, and previous audit findings. Based on the results of the risk assessment, the University determines for the subrecipient an overall risk level of low, medium, or high.

**The University did not have adequate policies and procedures in place over its subrecipient monitoring processes.** Specifically:

- The University's policies do not address additional monitoring tools for medium- or high-risk subrecipients to ensure proper accountability and compliance with program requirements. According to the University's policy, certain executive approval is required before an award is made to a medium- or high-risk subrecipient; however, the policy does not address any additional monitoring those subrecipients should receive after the award is executed. Auditors observed examples of low- and medium-risk assessments during testing.
- The University's policy requires subrecipient expenditures to be reviewed for allowability; however, that policy does not specify what level of detail should be included in the subrecipient's invoice. For example, one subrecipient's invoice totaling \$37,511 included only a date range and did not include an itemized list of expenses, budget categories, or any other information regarding the type of expenses that invoice covered.

Insufficient monitoring policies and procedures for subrecipients increases the risk that the University would not detect subrecipients' noncompliance with federal statutes, regulations, and terms and conditions of the subaward.

Recommendation:

The University should strengthen its policies and procedures over subrecipient monitoring to ensure that it appropriately evaluates risk of noncompliance and performs monitoring procedures based on identified risks.

Views of Responsible Officials:

*Texas A&M University acknowledges and agrees with the findings. Texas A&M University will work to develop and implement corrective action.*

Corrective Action Plan:

*Texas A&M Sponsored Research Services will revise procedures to include additional monitoring tools that may be used in evaluating the performance of subrecipients considered medium or high risk.*

*Texas A&M Sponsored Research Services will revise procedures to include additional detail on ensuring allowability of subrecipient expenditures.*

*Implementation Date: June 2019*

*Responsible Person: Crissy Stratta*

**University at Texas at Austin**

Reference No. 2018-109

**Equipment and Real Property Management**

(Prior Audit Issues 2015-134, 2014-155, 2013-176, 13-161, and 12-170)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Equipment

A recipient’s property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)).

Questioned Cost: \$ 0

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

In addition, the University of Texas at Austin’s (University) *Handbook of Business Procedures* requires that a university inventory barcode tag be affixed to new equipment items that are capitalized or controlled.

**The University did not maintain accurate property records for 18 (23 percent) of 77 equipment items tested.** Specifically, for each of those 18 items, the property record was inaccurate for 1 or more of the following elements: item location, item condition, serial number or other identification number, or disposition information. In addition, the University did not follow its policy to affix inventory barcode tags to equipment items for 1 of those items. The University relies on its departments to ensure that property records are updated accurately. The errors for those 18 items occurred because the University either (1) did not enter property records accurately and completely into its asset management system or (2) did not always follow its policies and procedures to update property records as needed. Not maintaining accurate property records increases the risk that equipment may be lost or stolen.

The following awards were affected by the equipment issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.000	U.S Department of Defense	DABK39-03-C-0062	July 1, 2003, to June 30, 2007
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-0530	January 29, 2013, to July 28, 2015
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-0781	May 15, 2015, to May 14, 2017
12.300	Basic and Applied Scientific Research	N00024-07-D-6200-0902	September 27, 2016, to September 26, 2018
12.800	Air Force Defense Research Sciences Program	FA9550-11-1-0296	September 30, 2011, to September 29, 2012

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.800	Air Force Defense Research Sciences Program	FA9550-12-1-0494	September 30, 2012, to September 29, 2017
12.910	Research and Technology Development	N66001-01-1-8964	January 1, 2002, to February 27, 2005
12.910	Research and Technology Development	2003377937 (the University received funds as a pass-through from Johns Hopkins University)	March 2, 2017, to March 1, 2018
20.000	U.S Department of Transportation	DTFR53-99-H00006	January 20, 2005, to December 31, 2007
47.041	Engineering Grants	NEES-4101-31903	October 1, 2009, to October 31, 2014
47.049	Mathematical and Physical Sciences	PHY-0854960	August 1, 2009, to July 31, 2013
47.070	Computer and Information Science and Engineering	OCI-1134872	September 1, 2011, to September 30, 2017
47.074	Biological Sciences	DEB-0419615	August 16, 2001, to August 31, 2006
47.074	Biological Sciences	DBI-0130647	February 1, 2002, to January 31, 2007
47.074	Biological Sciences	1714555	August 1, 2017, to July 31, 2020
93.464	ACL Assistive Technology	90AG0019-01-00	January 1, 2015, to September 30, 2016
93.859	Biomedical Research and Research Training	5R01GM087562-04	April 1, 2009, to March 31, 2014
93.859	Biomedical Research and Research Training	5DP1GM106408-04	September 30, 2012, to July 31, 2016

Physical Inventory

A recipient must conduct a physical inventory of equipment and reconcile the results with its property records at least once every two years. A control system also must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of equipment. Any loss, damage, or theft of equipment must be investigated (Title 2, CFR, Section 200.313(d)(2) and (3)).

The University's *Handbook of Business Procedures* states that an annual physical inventory will be conducted and 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 has been lost or stolen. The *Handbook of Business Procedures* also specifies that a fine may be assessed for a department whose total missing and stolen property is in excess of 2 percent of the department's total depreciated inventory value.

The University conducted a physical inventory of equipment during fiscal year 2018 in eight cycles, which staggered the time frames between department inventories. Auditors reviewed the fiscal year 2018 physical inventory and identified one department that did not complete an inventory during fiscal year 2018. In addition, the inventory results for 29 departments documented total missing equipment that exceeded the 2 percent threshold of the department's total depreciated inventory value. The University did not have a consistent, documented process in place to follow up on discrepancies and missing equipment identified during the physical inventory. The University also did not impose the sanctions described in its policy.

Not following up on discrepancies and not requiring all departments to complete an annual inventory increases the risk that equipment purchased with federal funds may be lost, stolen, or improperly disposed.

Recommendations:

The University should:

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

Views of Responsible Officials:

*The University concurs with the finding.*

Corrective Action Plan:

*The University leadership has initiated a business process review and re-engineering project that will involve a redesign of core business practices, increase transparency, gain efficiencies and improve customer service. This project will be our basis to make necessary changes and updates to the Handbook of Business Procedures (HBP). We strongly believe that these changes will address the recommendations noted above by providing more clarity to our stakeholders in terms of inventory compliance. Additionally, we are also reaching out to inventory contacts and business officers individually to provide training, and raise awareness of inventory compliance. Inventory Services is committed to improving and strengthening controls over inventory management.*

*Implementation Date: August 2019*

*Responsible Person: Kristen Walker*

Reference No. 2018-110

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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 Energy

**The University of Texas at Austin (University) did not ensure that its financial reports were accurate and complete.** Specifically, for 4 (7 percent) of 60 reports tested, the University incorrectly reported one or more of the following report elements: indirect expenses, including the indirect cost rate, the direct cost base, and the indirect amount charged; federal share of unliquidated obligations; or expense detail to support the amount of funds requested for reimbursement. Those errors occurred because of manual errors the University made when preparing the reports. In addition, while the University had a process in place to review and approve financial reports prior to submission, that review and approval process was (1) not consistently documented and (2) not sufficient to ensure that the financial reports were accurate and complete.

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

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.431	Basic Scientific Research	W911NF-17-1-0542	September 15, 2017, to November 14, 2018
12.910	Research and Technology Development	61102421-118342 (the University received funds as a pass-through from Stanford University)	July 30, 2015, to July 31, 2018
81.049	Office of Science Financial Assistance Program	DE-FG02-06ER15758	November 1, 2005, to January 14, 2018
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-EE0007658	January 1, 2017, to December 31, 2018

Recommendation:

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

Views of Responsible Officials:

*The University concurs with the finding.*

Corrective Action Plan:

*The University will document existing business processes via strengthened guidelines for the preparation and review of manual reporting documents, and reissue to all staff involved in the processes.*

*Implementation Date: January 2019*

*Responsible Person: David Dockwiller*

Reference No. 2018-111

**Subrecipient Monitoring**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Subrecipient Audits

A pass-through entity must verify that a subrecipient that expends \$750,000 or more in federal awards during the subrecipient’s fiscal year obtains a single audit (Title 2, Code of Federal Regulations (CFR), Sections 200.331(f) and 200.501, and Office of Management and Budget Circular A-133, Subpart D, Section 400(d)).

**For 16 (33 percent) of 48 subrecipients tested, the University of Texas at Austin (University) did not verify that the subrecipient obtained a single audit or that the subrecipient was exempt from that requirement.** The University’s process during fiscal year 2018 was to verify that subrecipients obtained single audits for only subrecipients that had subaward amendments during fiscal year 2018. However, the University did not consistently follow that process. In addition, the University did not verify that a subrecipient obtained a single audit if the subrecipient did not have a subaward amendment, although the subaward was active during fiscal year 2018.

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

<p>Questioned Cost: \$ 0</p> <p>U.S. Department of Defense  National Science Foundation  U.S. Department of Energy  U.S. Department of Health and Human Services  U.S. Department of Homeland Security</p>
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The following awards were affected by the issue discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.431	Basic Scientific Research	W911NF-14-1-0528	September 1, 2014, to February 28, 2019
47.041	Engineering Grants	CMMI-1520817	July 1, 2015, to June 30, 2020
47.041	Engineering Grants	EEC-1160494	September 1, 2012, to August 31, 2020
47.050	Geosciences	EAR-1322073	September 1, 2013, to August 31, 2018
47.050	Geosciences	EAR-1324760	August 1, 2013, to July 31, 2018
47.070	Computer and Information Science and Engineering	ACI-1341711	November 1, 2013, to October 31, 2019
47.076	Education and Human Resources	DRL-1420241	January 1, 2015, to December 31, 2018
81.049	Office of Science Financial Assistance Program	DE-FG02-03ER15430	August 1, 2003, to February 28, 2019
81.089	Fossil Energy Research and Development	DE-FE0026083	September 1, 2015, to August 31, 2019
81.089	Fossil Energy Research and Development	DE-FE0031558	April 1, 2018, to March 31, 2020
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-EE0007658	January 1, 2017, to December 31, 2019
93.121	Oral Diseases and Disorders Research	5R01DE023193-05	July 19, 2013, to May 31, 2018
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	5R21EB019646-02	March 15, 2015, to February 28, 2019
93.307	Minority Health and Health Disparities Research	5R21MD011431-02	August 14, 2017, to April 30, 2019

CFDA No.	CFDA Title	Award Number	Award Year
93.867	Vision Research	5R01EY017366-08	September 1, 2006, to July 31, 2018
97.044	Assistance to Firefighters Grant	EMW-2016-FP-0083	September 1, 2017, to August 31, 2019

Recommendation:

The University should strengthen controls to ensure that it verifies that subrecipients obtain single audits as required.

Views of Responsible Officials:

*The University concurs with the finding.*

Corrective Action Plan:

*The newly-implemented Subawards Committee will implement a revised process of reviewing subrecipient audit statuses semiannually, with added involvement of the management team.*

*Implementation Date: June 2019*

*Responsible Person: David Dockwiller*

Reference No. 2018-112

**Special Tests and Provisions – Key Personnel**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

A recipient of federal awards must obtain approval from federal awarding agencies for (1) changes to a key person specified in the application or the federal award, or (2) 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 (Title 2, Code of Federal Regulations (CFR), Section 200.308(c)(1)).

Questioned Cost: \$ 0  U.S. Department of Commerce U.S. Department of Defense National Science Foundation U.S. Department of Energy U.S. Department of Health and Human Services
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**The University of Texas at Austin (University) did not consistently ensure that key personnel were involved in projects as required.**

Specifically, for 6 (10 percent) of 60 projects tested, the University was unable to demonstrate that the key personnel specified in the award agreement met the identified level of involvement for fiscal year 2018. The University did not obtain approval from the federal awarding agency for changes to the level of involvement for the key personnel for all 6 of those projects. The University asserted that level of involvement may vary throughout the project’s period of performance; however, it could not provide documentation to support that those key personnel did not disengage from the project during fiscal year 2018.

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Not obtaining prior approval of reductions in level of involvement, or disengagement from the project, for key personnel may result in federal sponsors being unaware of changes to key personnel.

The following awards were affected by the issue discussed above.

CFDA No.	CFDA Title	Award Number	Award Year
11.000	U.S. Department of Commerce	2013-NE-2400 (the University received funds as a pass-through from the Nanoelectronics Research Corporation)	April 1, 2013, to December 31, 2017
12.431	Basic Scientific Research	W911NF-17-2-0180	September 8, 2017, to September 7, 2018
47.041	Engineering Grants	1760459	November 1, 2017, to October 31, 2018
47.070	Computer and Information Science and Engineering	OAC-1663578	October 1, 2017, to September 30, 2021
81.086	Conservation Research and Development	DE-EE0007762	October 1, 2016, to September 30, 2021
93.866	Aging Research	5R00AG040149-06	September 30, 2013, to June 30, 2019

Recommendation:

The University should strengthen its processes for identifying changes to key personnel requiring approval from the federal sponsor and ensure that it requests approval from the federal sponsor prior to those changes taking effect.

Views of Responsible Officials:

*The University concurs with the finding.*

Corrective Action Plan:

*The University will insert additional guidance to existing effort certification controls and resources to inform principal investigators and effort contacts campus-wide of reporting responsibilities, reiterating the requirement to notify sponsors of any reduction greater than 25% in effort contributed by key personnel.*

*Implementation Date: February 2019*

*Responsible Person: David Dockwiler*

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

Reference No. 2018-113

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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  
National Aeronautics and Space Administration  
U.S. Department of Health and Human Services  
U.S. Department of Homeland Security

**The University of Texas Health Science Center at Houston (Health Science Center) did not always ensure that its financial reports were accurate and complete.** Specifically, for 18 (26 percent) of 69 reports tested, the Health Science Center incorrectly reported one or more of the following report elements: relevant project dates, including project period, reporting period, and/or indirect expense period dates; indirect expense information, including the indirect cost base amount and indirect cost amount charged; or unliquidated obligation amount.

The Health Science Center had a process in place to review and approve its financial reports prior to submission; however, that review and approval process 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 following awards were affected by the reporting issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.420	Military Medical Research and Development	W81XWH-17-1-0632	September 15, 2017, to September 14, 2018
43.003	Exploration	NNX15AE25G	February 14, 2015, to September 30, 2017
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research	5P50CA180906-05	September 19, 2013, to August 31, 2019
93.242	Mental Health Research Grants	5R61MH110044-02	August 19, 2016, to September 27, 2017

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	1U79SM080021-01	September 30, 2016, to September 29, 2021
93.575	Child Care and Development Block Grant	2917INT014	February 1, 2017, to August 31, 2018
93.837	Cardiovascular Diseases Research	5UM1HL087318-12	January 1, 2007, to February 28, 2019
93.839	Blood Diseases and Resources Research	4R01HL113304-05	April 1, 2012, to March 31, 2018
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	4K23NS079900-05	July 1, 2012, to June 30, 2017
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	7R21NS090422-03	January 1, 2016, to August 31, 2016
93.855	Allergy and Infectious Diseases Research	R01AI116039	February 10, 2015, to January 31, 2019
93.859	Biomedical Research and Research Training	4R01GM060419-17	September 20, 2013, to December 31, 2017
93.859	Biomedical Research and Research Training	5R01GM097290-05	April 1, 2011, to March 31, 2018
93.859	Biomedical Research and Research Training	4R01GM027750-37	April 1, 2008, to July 31, 2017
93.859	Biomedical Research and Research Training	4R01GM104290-04	June 15, 2013, to April 30, 2018
93.859	Biomedical Research and Research Training	4R01GM104411-04	April 1, 2013, to January 31, 2018
97.044	Assistance to Firefighters Grant	EMW-2013-FP-00983	August 1, 2014, to April 30, 2018

**Recommendation:**

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

**Views of Responsible Officials:**

*The University concurs with the recommendation.*

Corrective Action Plan:

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

*Sponsored Projects Administration has revised procedures to ensure that the federal financial reports reflect the correct project dates, indirect expense information and unliquidated obligation amount.*

*Sponsored Projects Administration will provide mandatory staff training for staff members responsible for completing and reviewing federal financial reports to ensure reports are accurate and complete.*

*Implementation Date: March 1, 2019*

*Responsible Person: Ronald Perez*

Reference No. 2018-114

**Subrecipient Monitoring**

(Prior Audit Issues 2015-145 and 2014-158)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Award Identification

At the time of a subaward, the pass-through entity must communicate to the subrecipient: (1) the federal award information, including the catalog of federal domestic assistance (CFDA) number and title, federal award number, and whether the award is research and development; (2) all requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award; and (3) a requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements (Title 2, Code of Federal Regulations (CFR), Section 200.331(a), and U.S. Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d)).

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

**For 24 (57 percent) of 42 subawards tested, the University of Texas Health Science Center at Houston (Health Science Center) did not accurately provide all required information to the subrecipient.** The Health Science Center did not provide or provided inaccurate federal award information, including federal award number and date, CFDA number and title, or whether the award was research and development; or it did not include a clause in the subcontract to communicate the requirement that the subrecipient must permit the Health Science Center and auditors access to the subrecipient's records and financial statements as necessary.

While the Health Science Center used templates for its subawards and their amendments, those templates were not always sufficient to ensure that required information was included. Not providing all required award information increases the risk that subrecipients will not comply with all applicable statutes, regulations, and terms and conditions of the federal award.

Evaluation of Risk and Monitoring

Pass-through entities are required 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. The pass-through entity may consider such factors as the subrecipient's prior

experience with the same or similar subawards, the results of previous audits, whether the subrecipient has new personnel or new or substantially changed systems, and the extent and results of federal awarding agency monitoring (Title 2, CFR, Section 200.331(b)). The pass-through entity must monitor the activities of each subrecipient as necessary to ensure that a 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)).

The Health Science Center uses a subrecipient risk assessment template that allows it to assess risk based on criteria such as amount of the subaward, the subrecipient’s prior experience, and the results of previous audits. Based on the results of the risk assessment, the Health Science Center determines for the subrecipient an overall risk level of low, medium, or high. For low risk subrecipients, the Health Science Center’s primary monitoring activity is reviewing subrecipient invoices to ensure they are reasonable and for allowable costs. For medium risk subrecipients, the Health Science Center requires that additional detail be included on subrecipient invoices. For high risk subrecipients, detailed invoices and quarterly technical progress reports are required from subrecipients.

**For 7 (17 percent) of 42 subawards tested, the Health Science Center did not consistently monitor subrecipient activities to provide reasonable assurance that the subrecipients administered the subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward. Specifically:**

- For 5 subawards, the Health Science Center did not perform a risk assessment to determine the level of monitoring activities necessary. As a result, auditors were unable to determine whether the Health Science Center performed monitoring activities in accordance with its policies.
- For 2 subawards, the Health Science Center determined that each subrecipient had an overall risk level of medium. However, the Health Science Center did not ensure that the invoices it received from those subrecipients included the level of detail required by its policies.

Insufficient monitoring of subrecipients increases the risk that the Health Science Center would not detect subrecipients’ noncompliance with federal statutes, regulations, and the terms and conditions of the subaward.

Subrecipient Audits

A pass-through entity must verify that a subrecipient that expends \$750,000 or more in federal awards during the subrecipient’s fiscal year obtains a single audit (Title 2, CFR, Sections 200.331(f) and 200.501, and OMB Circular A-133, Subpart D, Section 400(d)).

**For 6 (17 percent) of 36 subrecipients tested, the Health Science Center did not verify that the subrecipient obtained a single audit or that the subrecipient was exempt from that requirement.** The Health Science Center has a process to request audits from subrecipients on an annual basis; however, it did not consistently follow that process. Not ensuring that subrecipients obtain required audits increases the risk that deficiencies could go unaddressed.

The following awards were affected by the issues discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-16-1-0296	September 15, 2016, to September 14, 2019
17.401	International Labor Programs	IL-29677-16-75-K-48	September 1, 2016, to August 31, 2019

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
84.324	Research in Special Education	R324A120363	September 1, 2012, to August 31, 2018
93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance	2016-049368-001A	May 1, 2016, to January 31, 2018
93.110	Maternal and Child Health Federal Consolidated Programs	6T04MC12785-10-01	June 1, 2009, to May 31, 2019
93.113	Environmental Health	5R01ES022165-05	September 12, 2013, to April 30, 2019
93.121	Oral Diseases and Disorders Research	5R01DE024166-04	March 1, 2015, to February 29, 2020
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	6U48DP005002-04-03	September 30, 2014, to September 29, 2019
93.307	Minority Health and Health Disparities Research	5U24MD006941-05	September 20, 2011, to June 30, 2018
93.361	Nursing Research	5R01NR013707-05	June 7, 2013, to March 31, 2019
93.788	Opioid STR	HHS000113200001	February 1, 2018, to April 30, 2019
93.837	Cardiovascular Diseases Research	5U01HL077863-11	January 1, 2014, to December 31, 2018
93.837	Cardiovascular Diseases Research	5UM1HL087318-12	January 1, 2007, to February 28, 2019
93.837	Cardiovascular Diseases Research	5R01HL129191-04	July 2, 2015, to April 30, 2019
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	5R01AR065445-06	May 6, 2014, to April 30, 2019
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK081866-07	September 25, 2009, to August 31, 2019
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	U01NS062835	September 30, 2009, to April 30, 2019

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS080839-04	August 15, 2014, to January 31, 2019
93.855	Allergy and Infectious Diseases Research	5R33AI116208-04	September 1, 2014, to August 31, 2019
93.879	Medical Library Assistance	5R01LM011829-05	September 1, 2014, to August 31, 2019

Recommendations:

The Health Science Center should:

- Ensure that it accurately provides all required information in subawards or amendments to subawards.
- Follow its policies for assessing subrecipient risk and consistently monitor subrecipients based on those policies.
- Strengthen controls to ensure that it verifies that subrecipients obtain single audits as required.

Views of Responsible Officials:

*The University concurs with the recommendation.*

Corrective Action Plan:

*Sponsored Projects Administration will update non-FDP subaward templates to ensure all required information and clauses are included.*

*Templates will be updated to better delineate terms for medium and high risk subrecipients.*

*Sponsored Projects Administration will create and implement a schedule for reviewing single audit reports for all active subrecipients on an annual basis.*

*Sponsored Projects Administration will provide mandatory staff training for staff members responsible for completing subaward risk assessments and agreements.*

*Sponsored Projects Administration is implementing a new Grants Management System that includes a subrecipient module. This module will track risk assessment and audit reviews.*

*Implementation Date: March 1, 2019*

*Responsible Person: Carmen Martinez*

Reference No. 2018-115

**Special Tests and Provisions – Key Personnel  
Activities Allowed or Unallowed  
Allowable Costs/Cost Principles**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Key Personnel

A recipient of federal awards must obtain approval from federal awarding agencies for (1) changes to a key person specified in the application or the federal award, or (2) 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 (Title 2, Code of Federal Regulations (CFR), Section 200.308(c)(1)).

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 consistently ensure that key personnel were involved in projects as required.** Specifically, for 4 (7 percent) of 60 projects tested, the key personnel specified in the award agreement did not meet the identified level of involvement for fiscal year 2018. The Health Science Center did not obtain approval from the federal awarding agency for the changes to the level of involvement for the key personnel for all 4 of those projects. The Health Science Center relies upon departments to identify changes to key personnel that require federal awarding agency approval. The Health Science Center’s policy requires departments to send requests for changes to key personnel to the Sponsored Projects Administration department for review and approval prior to sending the request to the federal awarding agency; however, the Health Science Center did not follow that process consistently.

Not obtaining prior approval of reductions in level of involvement for key personnel may result in federal sponsors being unaware of changes to key personnel.

The following awards were affected by the issues discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5U01NS090259-04	September 1, 2015, to June 30, 2019
93.859	Biomedical Research and Research Training	5R01GM113212-03	December 5, 2014, to November 30, 2018
93.867	Vision Research	1P30EY028102-01	September 1, 2017, to June 30, 2022
93.879	Medical Library Assistance	5R01LM010681-08	May 31, 2010, to September 28, 2018

Other Compliance Areas

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

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Health Science Center did not have appropriate segregation of duties in its change management process for its time and effort certification application.** The Health Science Center uses the services of a third-party contractor to host and maintain that application. All of the contractor's listed developers for the application have access to migrate changes to the application's production environment. The contractor maintains documentation of who developed and approved each change; however, it does not document the personnel who migrated the change. As a result, for all 10 changes tested, auditors were unable to confirm that the developer did not also migrate the change to the application's production environment.

Not maintaining appropriate segregation of duties or having appropriate controls to track the migration of code to the production environment increases the risk of unauthorized or unintended programming changes being made to critical information systems.

Recommendations:

The Health Science Center should:

- Strengthen its processes for identifying changes to key personnel requiring approval from the federal sponsor and ensure that it requests approval from the federal sponsor prior to those changes taking effect.
- Monitor its third-party contractor to ensure that sufficient change management controls are in place to prevent developers from migrating their own programming changes to the production environment.

Views of Responsible Officials:

Key Personnel

*The University concurs with the recommendation.*

General Controls: Change Management

*The University concurs with the recommendation.*

Corrective Action Plan:

Key Personnel

*UTHealth has implemented the following corrective action, to occur during the semi-annual certification periods, to prevent inconsistent key personnel involvement on projects:*

- *Continue loading committed levels of effort into the effort system, allowing projects with no associated payroll values to populate the statement. In addition, to the commitment load, the eCRT system has been updated to include a Committed Effort column on the statement. The column displays the required commitment for the period of review.*
- *Run a weekly comparison report to identify & correct statements certified below the commitment.*

- *Run a weekly comparison report to identify statements including payroll percentages higher than certified effort.*
- *Enhance and update training resources to educate school & department staff about the effort certification process & navigating the eCRT system.*

*Implementation Dates: March 1, 2019, Bullet 4: June 1, 2019*

*Responsible Person: Amaris Ogu*

*General Controls: Change Management*

*In response to the audit's concerns, Huron has implemented a variety of measures to review/monitor controls over the eCRT application. Below are the measures Huron has implemented:*

- *Formalize the process of deploying code changes to document that a change to the Production code is required*
- *Formalize the deployment process to capture who is deploying the build and when (automatically captured based on login of the user, not manually entered)*
- *Capture the name of the person who is deploying the patch/build in a separate change management system*
- *Perform periodic review of changes implemented by management to ensure they are appropriate*
- *Ensure that developers are not promoting changes into production. Changes that are implemented as part of a build which consists of many changes may be pushed into the production environment by a developer who worked on the change but this would be reviewed by management for appropriateness.*

*In conjunction with Huron, UTHealth performed a full assessment of Huron controls during the system selection process. We determined that Huron provided sufficient general controls. It should also be noted that Huron provides advance notice, with detailed explanation of the change, for maintenance changes. For requested changes & modifications, Huron requests the change be reviewed & approved by UTHealth before migration to the production environment.*

*Implementation Date: March 1, 2019*

*Responsible Person: Connie Wooldridge*

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

Reference No. 2018-116

**Activities Allowed or Unallowed**  
**Allowable Costs/Cost Principles**  
**Special Tests and Provisions – Key Personnel**

**Research and Development Cluster**  
**Award years – Multiple**  
**Award numbers – Multiple**  
**Statistically valid sample – No and not intended to be a statistically valid sample**  
**Type of finding – Significant Deficiency**

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, Code of Federal Regulations (CFR), Section 200.303).

Questioned Cost: \$ 0  
Federal agencies that award R&D funds

**The University of Texas Health Science Center at San Antonio (Health Science Center) did not have appropriate segregation of duties in its change management process for its time and effort certification application.** The Health Science Center uses the services of a third-party contractor to host and maintain that application. All of the contractor’s listed developers for the application have access to migrate changes to the application’s production environment. The contractor maintains documentation of who developed and approved each change; however, it does not document the personnel who migrated the change. As a result, for all 10 changes tested, auditors were unable to confirm that the developer did not also migrate the change to the application’s production environment. Not maintaining appropriate segregation of duties or having appropriate controls to track the migration of code to the production environment increases the risk of unauthorized or unintended programming changes being made to critical information systems.

Recommendation:

The Health Science Center should monitor its third-party contractor to ensure that sufficient change management controls are in place to prevent developers from migrating their own programming changes to the production environment.

Views of Responsible Officials:

*The University concurs with the recommendation.*

Corrective Action Plan:

*We have already worked with our third-party contractor to develop and implement measures to properly perform production change management segregation of duties controls for our time and effort certification application. The University will monitor its third-party contractor’s controls over segregation of duties via the University’s Documentation of Compensation monitoring plan.*

*Implementation Date: January 2019*

*Responsible Person: Chris Green*

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

Reference No. 2018-117

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Program Income**

**Special Tests and Provisions – Key Personnel**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Statistically valid sample – No and not intended to be a statistically valid sample**

**Type of finding – Significant Deficiency**

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, Code of Federal Regulations (CFR), Section 200.303).

Questioned Cost: \$ 0

Federal agencies that award R&D funds

**The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not have appropriate segregation of duties in its change management process for its time and effort certification application.** The Cancer Center uses the services of a third-party contractor to host and maintain that application. All of the contractor’s listed developers for the application have access to migrate changes to the application’s production environment. The contractor maintains documentation of who developed and approved each change; however, it does not document the personnel who migrated the change. As a result, for all 10 changes tested, auditors were unable to confirm that the developer did not also migrate the change to the application’s production environment. Not maintaining appropriate segregation of duties or having appropriate controls to track the migration of code to the production environment increases the risk of unauthorized or unintended programming changes being made to critical information systems.

**The Cancer Center did not appropriately restrict access to certain systems it uses to manage its research and development programs.** Specifically, the Cancer Center did not remove the account for a user who was no longer employed with the Cancer Center. In addition, the Cancer Center did not conduct an effective user access review for all system levels to verify that access was appropriately limited to current employees. Allowing users inappropriate access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The Cancer Center should:

- Monitor its third-party contractor to ensure that sufficient change management controls are in place to prevent developers from migrating their own programming changes to the production environment.
- Appropriately limit user access to current employees and strengthen its user access review process for all system levels.

Views of Responsible Officials:

Change Management

*The Cancer Center agrees that its third-party contractor did not have adequate documentation to support segregation of duties in its change management process for its time and effort certification application.*

Systems Access

*The Cancer Center has implemented controls to limit user access to current employees and strengthened its user access review process. In March 2018, the Cancer Center implemented a new Identity Management System; the system is supported by reports that identify discrepancies between the Identity Management System and its active user directory. All discrepancies are investigated and remediated.*

Corrective Action Plan:

Change Management

*The Cancer Center will monitor its third-party contractors to ensure that sufficient change management controls are in place to prevent developers from migrating their own programming changes to the production environment, including ensuring that third-party contractors have adopted the following change management procedures:*

- *All production builds will be deployed by a member of the contractor's Hosting Team.*
- *The support portal will be used as the change management system, including documenting the personnel who migrates the change into production (deploys the build).*
- *Management will perform periodic reviews of production build deployments to ensure builds are deployed according to the change management procedure.*

*Implementation Date: November 2018*

*Responsible Person: Michael Keneker*

Systems Access

*The Cancer Center will implement a validation process between the Identity Management System and PeopleSoft and will investigate and remediate discrepancy reports.*

*Implementation Date: August 2019*

*Responsible Person: Lessley Stoltenberg*

Reference No. 2018-118

**Cash Management**

**Research and Development Cluster**

**Award years – Multiple**

**Award numbers – Multiple**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Interest on Advances

A non-federal entity must maintain advances of federal funds in interest-bearing accounts unless: (1) the non-federal entity 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 \$500 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 200.305(b)(8)). Interest earned up to \$500 per year may be retained by the non-federal entity for administrative expense. Any additional interest earned on federal advance payments deposited in interest-bearing accounts must be remitted annually to the U.S. Department of Health and Human Services Payment Management System (Title 2, CFR, Section 200.305(b)(9)).

Questioned Cost: Unknown
Federal agencies that make advances of R&D funds

**The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not identify, track, or remit to the U.S. Department of Health and Human Services interest it earned on federal funds received in advance of program expenses for fiscal year 2018.** The Cancer Center previously had a process in place to track federal projects that receive advances of federal funds and to calculate and remit interest earned on those advances; however, it asserted that it discontinued that process due to a misinterpretation of federal guidance. Because the Cancer Center did not have a process in place to identify and track advances of federal funds, auditors were unable to determine the actual amount of interest that it would be required to remit, if any, to the federal government for fiscal year 2018.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Cancer Center did not appropriately restrict access to certain systems it uses to manage its research and development programs.** Specifically, the Cancer Center did not remove the account for a user who was no longer employed with the Cancer Center. In addition, the Cancer Center did not conduct an effective user access review for all system levels to verify that access was appropriately limited to current employees. Allowing users inappropriate access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The Cancer Center should:

- Develop and implement a process to identify and track advances of federal funds and remit interest it earns on federal funds as required.
- Appropriately limit user access to current employees and strengthen its user access review process for all system levels.

Views of Responsible Officials:

Cash Management

Accepted.

Systems Access

The Cancer Center has implemented controls to limit user access to current employees and strengthened its user access review process. In March 2018, the Cancer Center implemented a new Identity Management System; the system is supported by reports that identify discrepancies between the Identity Management System and its active user directory. All discrepancies are investigated and remediated.

Corrective Action Plan:

Cash Management

The Cancer Center has identified all advances of federal funds and remitted all interest earned through December 2018.

The Cancer Center is developing a business process and supporting tools to identify and track advances of federal funds and remit interest earned on federal funds as required. The central Grants and Contracts Accounting Office (GCA) will own this process.

Implementation Dates: Prior interest remittance – January 2019  
Report and Process – February 2019

Responsible Person: Michael Keneker

Systems Access

The Cancer Center will implement a validation process between the Identity Management System and PeopleSoft and will investigate and remediate discrepancy reports.

Implementation Date: August 2019

Responsible Person: Lessley Stoltenberg

Reference No. 2018-119

**Equipment and Real Property Management**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Equipment

A recipient’s property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

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

**The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not maintain adequate property records for 15 (22 percent) of 68 equipment items tested.** Specifically, for 9 items tested, the property records contained an inaccurate serial number for each item and for 6 items tested, the property records contained an incorrect location for each item. Those errors occurred because the Cancer Center either (1) did not enter information into its property records accurately or (2) because it did not always appropriately update its property records when conducting its annual inventory.

**In addition, the Cancer Center did not always adequately safeguard its equipment.** For 1 (1 percent) of 68 equipment items selected for physical inspection, the Cancer Center was unable to locate the item. The Cancer Center did not identify that the item was missing until auditors selected that item for testing.

Not maintaining accurate property records and not adequately safeguarding equipment increases the risk that equipment may be lost or stolen.

The following awards were affected by the equipment issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-14-1-0218	July 15, 2014, to April 14, 2016
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	UTA07-816  (the Cancer Center received funds as a pass-through from the University of Texas at Austin)	September 1, 2007, to February 28, 2013
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB000117-04	June 1, 2002, to March 31, 2008

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

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.393	Cancer Cause and Prevention Research	5R01CA160394-04	May 1, 2012, to March 31, 2016
93.395	Cancer Treatment Research	5P01CA124787-05	September 18, 2008, to August 31, 2014
93.395	Cancer Treatment Research	5UG1CA189828-03-MDA1  (the Cancer Center received funds as a pass-through from ECOG - ACRIN Medical Research Foundation, Inc.)	July 1, 2017, to July 31, 2019
93.395	Cancer Treatment Research	5U10CA010953-45	September 1, 1978, to December 31, 2014
93.395	Cancer Treatment Research	5R01CA182450-03	August 1, 2014, to July 31, 2018
93.395	Cancer Treatment Research	CBPO361W-00  (the Cancer Center received funds as a pass-through from the Frontier Science and Technology Research Foundation, Inc.)	August 1, 2014, to February 28, 2016
93.395	Cancer Treatment Research	5R01CA061508-15	September 17, 1993, to March 31, 2010
93.396	Cancer Biology Research	5R01CA111999-05	June 19, 2006, to April 30, 2011
93.397	Cancer Centers Support Grants	5P50CA097007-10	September 30, 2002, to July 31, 2015
93.397	Cancer Centers Support Grants	5P30CA016672-27	July 1, 1978, to June 30, 2003
93.701	Trans-NIH Recovery Act Research Support	5R01NS045602-07	April 1, 2003, to June 30, 2012
93.855	Allergy and Infectious Diseases Research	5R01AI063063-06	December 15, 2004, to November 30, 2009

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Cancer Center did not appropriately restrict access to certain systems it uses to manage its research and development programs.** Specifically, the Cancer Center did not remove the account for a user who was no longer employed with the Cancer Center. In addition, the Cancer Center did not conduct an effective user access review for all system levels to verify that access was appropriately limited to current employees. Allowing users inappropriate access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The Cancer Center should:

- Strengthen controls to ensure that it updates and maintains accurate property records.
- Strengthen controls to ensure that it adequately safeguards its equipment to prevent loss, damage, or theft of equipment.
- Appropriately limit user access to current employees and strengthen its user access review process for all system levels.

Views of Responsible Officials:

Equipment and Real Property Management

*The Cancer Center agrees that accurate property records must be maintained for equipment acquired with federal funds. We also acknowledge that many institutional assets are primarily mobile throughout their functional lifecycles, rendering asset location a moving target.*

*We also wish to highlight that the item unable to be located is a rotor for a centrifuge that represents a small component of the overall centrifuge equipment.*

Systems Access

*The Cancer Center has implemented controls to limit user access to current employees and strengthened its user access review process. In March 2018, the Cancer Center implemented a new Identity Management System; the system is supported by reports that identify discrepancies between the Identity Management System and its active user directory. All discrepancies are investigated and remediated.*

Corrective Action Plan:

Equipment and Real Property Management

- *The Cancer Center will continue to emphasize the use of bar code scanners for asset data collection during the receiving and tagging process to alleviate the use of manual data entry to capture serial numbers by providing additional training to Asset Control and Receiving staff.*
- *The Cancer Center will communicate with Principal Investigators and departmental staff regarding the need to update Asset Management when assets are moved.*

*Implementation Date: Training – January 2019*

*Responsible Person: Michael Keneker*

Systems Access

The Cancer Center will implement a validation process between the Identity Management System and PeopleSoft and will investigate and remediate discrepancy reports.

Implementation Date: August 2019

Responsible Person: Lessley Stoltenberg

Reference No. 2018-120

**Period of Performance**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Period of Performance

A recipient may charge to a federal award only allowable costs incurred during the period of performance and any costs incurred before the federal award that were authorized by the federal awarding agency or pass-through entity (Title 2, Code of Federal Regulations (CFR), Section 200.309). Costs must be necessary and reasonable for the performance of the federal award to be allowable (Title 2, CFR, Section 200.403(a)).

Questioned Cost: \$ 9,263  
U.S. Department of Defense  
U.S. Department of Health and  
Human Services

**The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not always ensure that costs charged to federal awards were allowable and/or incurred within the period of performance.** For 8 (13 percent) of 60 transactions tested, the Cancer Center incurred the cost after the period of performance for the federal award or incurred the cost within the period of performance but the cost was unallowable. Specifically:

- For 2 transactions, the federal award was amended to shorten the period of performance. When the Cancer Center received the amendment, it did not update its financial system with the new project end date, which allowed costs to continue to post to the account. This resulted in a total of \$4,580 in questioned costs associated with award number W81XWH-16-1-0126.
- For 2 transactions, an order was placed for items after the period of performance. The Cancer Center asserted that this was due to an oversight by the principal investigator. For one of those transactions, the Cancer Center subsequently transferred the costs to a non-federal account; therefore, there are no questioned costs. For the other transaction, the error resulted in a total of \$618 in questioned costs associated with award number 5R01CA159042-05.
- For 4 transactions, an order was placed for items within the last few days or on the last day of the period of performance. Although those costs were incurred within the period of performance, those costs were not allowable for the federal award. The Cancer Center asserted that this was due to an oversight by the principal investigator. This resulted in a total of \$1,673 in questioned costs associated with award number 12-00482 and \$2,392 in questioned costs associated with award number THE-177821-03.

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

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-16-1-0126	September 30, 2016, to September 29, 2017
93.394	Cancer Detection and Diagnosis Research	5R01CA159042-05	March 1, 2011, to February 28, 2018
93.395	Cancer Treatment Research	12-00482  (the Cancer Center received funds as a pass-through from the New York University School of Medicine)	July 1, 2017, to June 30, 2018
93.855	Allergy and Infectious Diseases Research	THE-177821-03  (the Cancer Center received funds as a pass-through from the Mayo Clinic)	June 1, 2016, to February 28, 2018

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Cancer Center did not appropriately restrict access to certain systems it uses to manage its research and development programs.** Specifically, the Cancer Center did not remove the account for a user who was no longer employed with the Cancer Center. In addition, the Cancer Center did not conduct an effective user access review for all system levels to verify that access was appropriately limited to current employees. Allowing users inappropriate access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The Cancer Center should:

- Develop and implement a process to ensure that it complies with all period of performance requirements for federal awards.
- Appropriately limit user access to current employees and strengthen its user access review process for all system levels.

Views of Responsible Officials:

Period of Performance

The Cancer Center agrees that all charges must comport with Department of Health and Human Services Hospital Cost Principles for Federally Sponsored Research Activities (Cost Principles) as promulgated in 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Appendix IX. We agree that charges incurred near the end of the award period require additional review, oversight, and justification to ensure compliance with the Cost Principles considering Period of Performance regulations. We also recognize that research continues up to the award end date, and as such, not all charges incurred near, at, or after the award end date are, by their nature, unallowable. We will implement a revised process considering all of these factors.

Systems Access

The Cancer Center has implemented controls to limit user access to current employees and strengthened its user access review process. In March 2018, the Cancer Center implemented a new Identity Management System; the system is supported by reports that identify discrepancies between the Identity Management System and its active user directory. All discrepancies are investigated and remediated.

Corrective Action Plan:

Period of Performance

- The Cancer Center will remove/refund each questioned cost from its respective award.
- The Cancer Center is developing workflow to ensure high-risk direct charge and cost transfer transactions are reviewed and approved centrally the Grants and Contracts Accounting Office (GCA). In conjunction with these updated processes and GCA responsibilities, training will be deployed to re-educate GCA staff on the Cost Principles and Period of Performance regulations.
- The Cancer Center is conducting institution training to educate Principal Investigators and departmental staff on award closeout regulations, roles, and responsibilities.
- The Cancer Center is conducting training, developing processes, and developing supporting tools to reduce the likelihood that award set-up and amendment transactions are entered into the financial system incorrectly.

Implementation Dates: Charge removal – February 2019  
Period of Performance and Cost Principles Training – March 2019  
Closeout Training – February 2019  
Award Set-Up Training and Processes – March 2019  
System Workflow – June 2019

Responsible Person: Michael Keneker

Systems Access

The Cancer Center will implement a validation process between the Identity Management System and PeopleSoft and will investigate and remediate discrepancy reports.

Implementation Date: August 2019

Responsible Person: Lessley Stoltenberg

Reference No. 2018-121

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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 M.D. Anderson Cancer Center (Cancer Center) did not ensure that its financial reports were accurate and complete for 22 (58 percent) of 38 reports tested. Specifically:**

- For 11 reports, the Cancer Center incorrectly reported project date information, including the project period date and the indirect cost rate period.
- For 6 reports, the Cancer Center incorrectly reported financial information, including the federal funds authorized, federal share of expenditures, federal share of unliquidated obligations, indirect cost amount, and the indirect cost base amount.
- For 5 reports, the Cancer Center incorrectly reported both project date information and financial information.

While the Cancer Center reviewed its financial reports prior to submission, that review process 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 following awards were affected by the reporting issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-14-1-0554	September 22, 2014, to September 21, 2018
12.420	Military Medical Research and Development	W81XWH-17-1-0611	September 1, 2017, to August 31, 2019
12.420	Military Medical Research and Development	W81XWH-15-1-0140	September 15, 2015, to September 14, 2018

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

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-16-1-0717	September 30, 2016, to September 29, 2019
12.420	Military Medical Research and Development	W81XWH-15-1-0482	September 30, 2015, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-14-1-0109	September 15, 2014, to September 14, 2019
12.420	Military Medical Research and Development	W81XWH-14-1-0576	September 30, 2014, to September 29, 2017
12.420	Military Medical Research and Development	W81XWH-15-1-0662	September 21, 2015, to June 20, 2018
12.420	Military Medical Research and Development	W81XWH-16-1-0289	September 15, 2016, to September 14, 2019
12.420	Military Medical Research and Development	W81XWH-15-1-0142	August 15, 2015, to August 14, 2018
93.279	Drug Abuse and Addiction Research Programs	5K01DA034752-05	June 1, 2013, to June 2, 2017
93.393	Cancer Cause and Prevention Research	5R01CA109298-13	July 1, 2004, to July 31, 2017
93.393	Cancer Cause and Prevention Research	5R01CA169603-05	April 1, 2013, to March 31, 2018
93.393	Cancer Cause and Prevention Research	5R01CA087546-16	July 1, 2000, to March 31, 2018
93.394	Cancer Detection and Diagnosis Research	5U01CA111302-10	September 28, 2004, to June 30, 2017
93.396	Cancer Biology Research	5P01CA117969-12	December 1, 2005, to March 31, 2021
93.397	Cancer Centers Support Grants	4U54CA096300-14	August 16, 2002, to August 31, 2018
93.398	Cancer Research Manpower	5T32CA009599-29	May 25, 1994, to January 31, 2018
93.398	Cancer Research Manpower	4R25CA056452-24	July 3, 2013, to June 30, 2018

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

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS081684-04	September 1, 2012, to May 31, 2017
93.859	Biomedical Research and Research Training	4R01GM084459-14	January 1, 2003, to November 30, 2017
93.867	Vision Research	4R01EY011930-18	August 1, 1997, to April 30, 2017

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Cancer Center did not appropriately restrict access to certain systems it uses to manage its research and development programs.** Specifically, the Cancer Center did not remove the account for a user who was no longer employed with the Cancer Center. In addition, the Cancer Center did not conduct an effective user access review for all system levels to verify that access was appropriately limited to current employees. Allowing users inappropriate access to systems increases the risk of inappropriate changes to those systems.

Recommendations:

The Cancer Center should:

- Strengthen controls to ensure that the federal financial reports it submits are complete and accurate.
- Appropriately limit user access to current employees and strengthen its user access review process for all system levels.

Views of Responsible Officials:

Reporting

*The Cancer Center agrees and acknowledges that accuracy in reporting is necessary. While accurate reporting is important across the board, we see the severity and impact of financial data as being more critical than administrative/demographic data.*

*We also wish to highlight that no unallowable charges were incurred by applicable sponsoring agencies as a result of inaccurate financial reports.*

Systems Access

*The Cancer Center has implemented controls to limit user access to current employees and strengthened its user access review process. In March 2018, the Cancer Center implemented a new Identity Management System; the system is supported by reports that identify discrepancies between the Identity Management System and its active user directory. All discrepancies are investigated and remediated.*

Corrective Action Plan:

Reporting

- *The Cancer Center has developed training to further educate GCA staff on federal financial reporting regulations.*
- *The Cancer Center is developing a process to enhance its monitoring of federal financial reports by increasing the number of reports that are reviewed by Management prior to submission.*

*Implementation Dates: Training – February 2019  
Monitoring Process – February 2019*

*Responsible Person: Michael Keneker*

Systems Access

*The Cancer Center will implement a validation process between the Identity Management System and PeopleSoft and will investigate and remediate discrepancy reports.*

*Implementation Date: August 2019*

*Responsible Person: Lessley Stoltenberg*

**University of Texas Medical Branch at Galveston**

Reference No. 2018-122

**Cash Management**

**Period of Performance**

**Procurement and Suspension and Debarment**

(Prior Audit Issues 2017-040 and 2016-043)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Non-Major Program:**

**CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award year – 2008**

**Award number – 1791DRTX**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

**Interest on Advances**

A non-federal entity must maintain advances of federal funds in interest-bearing accounts unless: (1) the non-federal entity 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 \$500 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 200.305(b)(8)). Interest earned up to \$500 per year may be retained by the non-federal entity for administrative expense. Any additional interest earned on federal advance payments deposited in interest-bearing accounts must be remitted annually to the U.S. Department of Health and Human Services Payment Management System (Title 2, CFR, Section 200.305(b)(9)).

Questioned Cost: \$ 1,306

U.S. Department of Defense

**The University of Texas Medical Branch at Galveston (Medical Branch) did not correctly calculate the amount of interest it was required to remit to the U.S. Department of Health and Human Services.** Specifically, the Medical Branch separately tracked and calculated the amount of interest to remit for each project that received advances of federal funds. It also separately retained an amount for administrative expense for each project. Instead, it should have calculated the total amount of interest earned for all projects and retained \$500 for administrative expense for the Medical Branch as a whole.

In addition, the Medical Branch did not correctly calculate the full amount of interest earned because when it calculated the interest earned, it netted the positive cash balances of projects for which it received advances with the negative cash balances of projects that had expenditures that preceded the federal advances. Instead, it should have calculated the interest earned only on the advances of federal funds.

As a result of the issues described above, the Medical Branch should have remitted an additional \$1,306 in interest.

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**UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON**

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The following awards were affected by the issues discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-12-1-0429	September 27, 2012, to September 26, 2017
12.420	Military Medical Research and Development	W81XWH-12-1-0598	September 30, 2012, to September 29, 2016
12.420	Military Medical Research and Development	W81XWH-12-2-0086	September 14, 2012, to September 13, 2017
12.420	Military Medical Research and Development	W81XWH-13-1-0492	September 30, 2013, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-14-2-0160	September 15, 2014, to September 14, 2018
12.420	Military Medical Research and Development	W81XWH-14-2-0161	September 30, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-14-2-0162	September 30, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-14-2-0195	September 30, 2014, to September 29, 2018
12.420	Military Medical Research and Development	W81XWH-15-1-0143	July 1, 2015, to June 30, 2019
12.420	Military Medical Research and Development	W81XWH-15-1-0372	September 30, 2015, to March 29, 2018

Other Compliance Areas and Non-Major Program

Although the general control weaknesses described below apply to period of performance and procurement and suspension and debarment, auditors identified no compliance issues regarding those compliance requirements. The general control weaknesses described below also apply to CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters).

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Medical Branch did not appropriately restrict access to a tool in its information technology system that allows users to modify data in the production environment.** When the Medical Branch upgraded the system, it inadvertently granted inappropriate access to that tool to employees who did not need that access. The Medical Branch removed the inappropriate access after auditors brought the issue to its attention. Inappropriate access increases the risk of unauthorized or unintended modification to production data.

Recommendations:

The Medical Branch should:

- Ensure that it retains only the total amount allowed of interest earned for administrative expense.
- Ensure that it calculates the interest earned only on the advances of federal funds.
- Ensure that user access is appropriately limited to employees based on job responsibilities.

Views of Responsible Officials:

Cash Management

*Management acknowledges and agrees with the findings and recommendations. The Medical Branch has already implemented the corrective action plan.*

General Controls

*UTMB Health completed an internal assessment confirming the low likelihood of abuse of unexpected access privileges resulting from the PeopleSoft upgrade, and confirming that mitigating controls would likely have detected any misuse of such access. Additional measures are being taken to reduce the future risk for PeopleSoft privileged access.*

Corrective Action Plan:

Cash Management

*The Medical Branch updated the standard operating procedure to ensure that the interest earned calculation is accurate and that it retains only the total amount allowed for administrative expense. The Medical Branch remitted the additional amount identified to the U.S. Department of Health and Human Services.*

*Implementation Date: January 2019*

*Responsible Person: Claudia Delgado*

General Controls

*UTMB will implement Security Comparison and Privileged Access Review procedures as part of every major PeopleSoft project.*

*Implementation Date: March 1, 2019*

*Responsible Person: Darwin VanDyke*

*UTMB has Implemented procedures to review Privileged Access within FMS on a monthly basis.*

*Implementation Date: December 4, 2018*

*Responsible Person: Darwin VanDyke*

Reference No. 2018-123

**Equipment and Real Property Management**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Equipment

A recipient’s property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

Questioned Cost: \$ 0
National Aeronautics and Space Administration
National Science Foundation
U.S. Department of Health and Human Services
U.S. Agency for International Development

Equipment is defined as tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost that equals or exceeds the lesser of the capitalization level established by the recipient for financial statement purposes or \$5,000. Information technology systems are defined to include computing hardware, firmware, and software (Title 2, CFR, Sections 200.33 and 200.58).

**The University of Texas Medical Branch at Galveston (Medical Branch) did not maintain complete and accurate property records. Specifically:**

- The Medical Branch did not include in its property records the use and condition of the equipment and whether title vests in the Medical Branch or federal government for all equipment items tested. The Medical Branch asserted that it does not track this information in its asset management system.
- For 16 (22 percent) of 72 equipment items tested, the property record was inaccurate for one or more of the following required elements: item location, serial number or other identification number, or disposition information. Those errors occurred because the Medical Branch either (1) did not enter property records accurately and completely into its asset management system or (2) did not always follow its policies and procedures to update property records as needed.
- For 5 (42 percent) of 12 equipment disposals tested, the Medical Branch improperly removed the items from its property records. Those items were all computer software items purchased with federal awards. The Medical Branch removed those items from its asset management system because it incorrectly identified them as not having to be tracked as equipment. The Medical Branch provided a list of computer software it removed from its asset management system, and auditors identified an additional 13 items purchased with federal funds that the Medical Branch removed from its property records.

- For 4 (33 percent) of 12 equipment disposals reviewed, the Medical Branch did not maintain in its property records the funding source information, including the catalog of federal domestic assistance (CFDA) number, federal awarding agency, and federal award number. Without federal award information, auditors were unable to determine if the Medical Branch followed any applicable federal awarding agency disposition instructions.

**In addition, the Medical Branch did not always adequately safeguard its equipment.** For 5 (7 percent) of 72 equipment items selected for physical inspection, the Medical Branch was unable to locate the item. The Medical Branch asserted that 4 of those items were moved to other locations; however, it was unable to provide documentation supporting those relocations. Auditors were unable to confirm that those items were adequately safeguarded. The Medical Branch did not identify that 1 item was missing until auditors selected that item for testing.

Not maintaining complete and accurate property records and not adequately safeguarding equipment increases the risk that equipment may be lost, stolen, or improperly disposed.

The following awards were affected by the issues discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
43.001	Science	Unknown	Unknown
47.000	National Science Foundation	NSFDACS119442  (the Medical Branch received funds as a pass-through from Lockheed Martin Corporation)	March 31, 2012, to March 30, 2025
93.000	U.S. Department of Health and Human Services	N01-AI-40097/HHSN266	September 30, 2004, to September 30, 2010
93.084	Prevention of Disease, Disability, and Death by Infectious Diseases	5U01CK000512-02	December 30, 2016, to December 29, 2021
93.242	Mental Health Research Grants	5U01MH083507-05	June 5, 2008, to April 30, 2013
93.350	National Center for Advancing Translational Sciences	5UL1TR001439-04	August 18, 2015, to March 31, 2020
93.837	Cardiovascular Diseases Research	5R01HL119869-05	August 9, 2013, to July 1, 2017
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5P01NS39161	January 11, 2001, to December 31, 2007
93.855	Allergy and Infectious Diseases Research	5UC7AI094660-07	May 1, 2016, to April 30, 2021
93.855	Allergy and Infectious Diseases Research	5R01AI087643	December 15, 2010, to November 30, 2016

**UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON**

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
93.855	Allergy and Infectious Diseases Research	5UC7AI1070083-05	May 3, 2006, to April 20, 2012
93.866	Aging Research	5P30AG024832-05	June 15, 2005, to May 31, 2010
98.001	USAID Foreign Assistance for Programs Overseas	AIDOAAA1300084 (the Medical Branch received funds as a pass-through from the University of Texas at El Paso)	September 27, 2013, to September 26, 2017

Other awards were affected by the issues discussed above; however, because the Medical Branch did not maintain the award information, a complete list of awards affected could not be determined.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Medical Branch did not appropriately restrict access to a tool in its information technology system that allows users to modify data in the production environment.** When the Medical Branch upgraded the system, it inadvertently granted inappropriate access to that tool to employees who did not need that access. The Medical Branch removed the inappropriate access after auditors brought the issue to its attention. Inappropriate access increases the risk of unauthorized or unintended modification to production data.

Recommendations:

The Medical Branch should:

- Strengthen controls to ensure that it updates and maintains accurate property records for all equipment acquired with federal funds and that its property records include all required information.
- Strengthen controls to ensure that it adequately safeguards its equipment to prevent loss or theft of equipment.
- Ensure that user access is appropriately limited to employees based on job responsibilities.

Views of Responsible Officials:

Equipment and Real Property Management

*Management agrees with the auditor's recommendation.*

General Controls

UTMB Health completed an internal assessment confirming the low likelihood of abuse of unexpected access privileges resulting from the PeopleSoft upgrade, and confirming that mitigating controls would likely have detected any misuse of such access. Additional measures are being taken to reduce the future risk for PeopleSoft privileged access.

Corrective Action Plan:

Equipment and Real Property Management

UTMB will update its procedures and provide training to asset custodians to ensure the assets are in proper condition and adequately safeguarded. In addition, UTMB will update its procedures so that the records reflect the use and condition, title and federal award information of the assets.

Implementation Date: December 2019

Responsible Person: Michael Linton

General Controls

UTMB will implement Security Comparison and Privileged Access Review procedures as part of every major PeopleSoft project.

Implementation Date: March 1, 2019

Responsible Person: Darwin VanDyke

UTMB has Implemented procedures to review Privileged Access within FMS on a monthly basis.

Implementation Date: December 4, 2018

Responsible Person: Darwin VanDyke

Reference No. 2018-124

**Reporting**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Financial Reporting

Recipients are required to report financial information to ensure effective monitoring of federal awards (Title 2, Code of Federal Regulations (CFR), Section 200.327). Recipients use the Federal Financial Report Standard Form (SF-425), or alternate forms of financial reporting that report the same or similar information, to report financial activity to federal awarding agencies and pass-through entities. 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  
U.S. Agency for International  
Development

**The University of Texas Medical Branch at Galveston (Medical Branch) did not ensure that its financial reports were accurate and complete.** For 7 (18 percent) of 40 reports tested, the Medical Branch incorrectly reported one or more reporting elements. Specifically:

- For 3 reports tested, the Medical Branch did not report federally authorized funds that had been incurred but not yet paid as unliquidated obligations. Those errors occurred because the Medical Branch’s practice was to not report encumbrances as unliquidated obligations.
- For 3 reports tested, the Medical Branch incorrectly reported the effective period for the indirect cost rate. Also, it did not complete the reporting period end date for 1 of those 3 reports. Those errors occurred because of manual errors the Medical Branch made when preparing the financial reports.
- For 1 report tested, the Medical Branch did not correctly report the total federal funds authorized as of the reporting period end date because of a manual error the Medical Branch made when preparing that financial report.

In addition, while the Medical Branch had a process in place to review and approve financial reports prior to submission, that review and approval process was not sufficient to ensure that the financial reports were accurate and complete. Inaccurate information in financial reports increases the risk that federal agencies and pass-through entities could rely on inaccurate information to manage and monitor their awards.

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**UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON**

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.360	Research on Chemical and Biological Defense	HDTRA117C0009	February 1, 2017, to April 30, 2019
12.420	Military Medical Research and Development	W81XWH-14-2-0195	September 30, 2014, to September 29, 2018
93.855	Allergy and Infectious Diseases Research	5R01AI132323-02	June 20, 2017, to May 31, 2018
93.855	Allergy and Infectious Diseases Research	5U01AI115577-03	June 15, 2016, to May 31, 2020
93.855	Allergy and Infectious Diseases Research	5U19AI109711-04	March 1, 2014, to February 28, 2019
98.001	USAID Foreign Assistance for Programs Overseas	AIDOAAA1400010	May 1, 2017, to October 15, 2018

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Medical Branch did not appropriately restrict access to a tool in its information technology system that allows users to modify data in the production environment.** When the Medical Branch upgraded the system, it inadvertently granted inappropriate access to that tool to employees who did not need that access. The Medical Branch removed the inappropriate access after auditors brought the issue to its attention. Inappropriate access increases the risk of unauthorized or unintended modification to production data.

Recommendations:

The Medical Branch should:

- Strengthen controls to ensure that the financial reports it submits are complete and accurate.
- Ensure that user access is appropriately limited to employees based on job responsibilities.

Views of Responsible Officials:

Reporting

*The Medical Branch acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the Medical Branch is working to develop and implement corrective actions to ensure compliance.*

General Controls

*UTMB Health completed an internal assessment confirming the low likelihood of abuse of unexpected access privileges resulting from the PeopleSoft upgrade, and confirming that mitigating controls would likely have detected any misuse of such access. Additional measures are being taken to reduce the future risk for PeopleSoft privileged access.*

Corrective Action Plan:

Reporting

*The Medical Branch will strengthen controls by reviewing and revising the procedures for preparation and review of financial reports to ensure their accuracy.*

*Implementation Date: May 2019*

*Responsible Person: Claudia Delgado*

General Controls

*UTMB will implement Security Comparison and Privileged Access Review procedures as part of every major PeopleSoft project.*

*Implementation Date: March 1, 2019*

*Responsible Person: Darwin VanDyke*

*UTMB has Implemented procedures to review Privileged Access within FMS on a monthly basis.*

*Implementation Date: December 4, 2018*

*Responsible Person: Darwin VanDyke*

Reference No. 2018-125

**Special Tests and Provisions – Key Personnel**

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

(Prior Audit Issues 2017-040 and 2016-043)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Non-Major Program:**

**CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Award year – 2008**

**Award number – 1791DRTX**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

**Key Personnel**

A recipient of federal awards must obtain approval from federal awarding agencies for (1) changes to a key person specified in the application or the federal award, or (2) 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 (Title 2, Code of Federal Regulations (CFR), Section 200.308(c)(1)).

Questioned Cost: \$ 0

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

**The University of Texas Medical Branch at Galveston (Medical Branch) did not consistently ensure that key personnel were involved in projects as required.** Specifically, for 8 (13 percent) of 60 projects tested, the key personnel specified in the award agreement did not meet the identified level of involvement for fiscal year 2018. The Medical Branch did not obtain approval from the federal awarding agency for changes to the level of involvement for the key personnel for all 8 of those projects. Those errors occurred because the Medical Branch did not have an adequate process in place to monitor changes in the level of involvement for key personnel.

Not obtaining prior approval for reductions in the level of involvement, or disengagement from the project, for key personnel may result in federal sponsors being unaware of changes to key personnel.

The following awards were affected by the issue discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-09-2-0194  (the Medical Branch received funds as a pass-through from the American Burn Association)	September 30, 2009, to October 29, 2018
12.800	Air Force Defense Research Sciences Program	010847-003  (the Medical Branch received funds as a pass-through from the University of Cincinnati)	March 21, 2017, to March 20, 2019

**UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON**

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
47.049	Mathematical and Physical Sciences	DMS-1361318	September 1, 2014, to August 31, 2018
93.279	Drug Abuse and Addiction Research Programs	5R01DA040621-03	July 1, 2016, to June 30, 2021
93.350	National Center for Advancing Translational Sciences	5UL1TR001439-04	August 18, 2015, to March 31, 2020
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS096305-03	February 1, 2016, to January 31, 2021
93.855	Allergy and Infectious Diseases Research	5P01AI062885-10	July 1, 2005, to August 31, 2018
93.866	Aging Research	5R01AG054025-03	July 15, 2016, to March 31, 2021

Other Compliance Areas and Non-Major Program

Although the general control weaknesses described below apply to activities allowed or unallowed and allowable costs/cost principles, auditors identified no compliance issues regarding those compliance requirements. The general control weaknesses described below also apply to CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters).

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

**The Medical Branch did not have appropriate segregation of duties in its change management process for its time and effort certification application.** The Medical Center uses the services of a third-party contractor to host and maintain that application. All of the contractor’s listed developers for the application have access to migrate changes to the application’s production environment. The contractor maintains documentation of who developed and approved each change; however, it does not document the personnel who migrated the change. As a result, for all 10 changes tested, auditors were unable to confirm that the developer did not also migrate the change to the application’s production environment. Not maintaining appropriate segregation of duties or having appropriate controls to track the migration of code to the production environment increases the risk of unauthorized or unintended programming changes being made to critical information systems.

**The Medical Branch did not appropriately restrict access to a tool in its information technology system that allows users to modify data in the production environment.** When the Medical Branch upgraded the system, it inadvertently granted inappropriate access to that tool to employees who did not need that access. The Medical Branch removed the inappropriate access after auditors brought the issue to its attention. Inappropriate access increases the risk of unauthorized or unintended modification to production data.

Recommendations:

The Medical Branch should:

- Strengthen its processes for identifying changes to key personnel requiring approval from the federal sponsor and ensure that it requests approval from the federal sponsor prior to those changes taking effect.
- Monitor its third-party contractor to ensure that sufficient change management controls are in place to prevent developers from migrating their own programming changes to the production environment.
- Ensure that user access is appropriately limited to employees based on job responsibilities.

Views of Responsible Officials:

Special Tests and Provisions – Key Personnel

*The UTMB agrees with the findings.*

General Controls

*The ecrt support team includes a small-specialized team of Huron developers, who write the application's code, and Huron Hosting engineers. The ecrt support staff require access to servers, databases to perform contractually obligated work, as some issues are application related, and some are data related. Members of the ecrt support staff can deploy code patches and new builds.*

*Certain changes can be done for separation of duties but it is not practical for us to remove production access from all developers, however Huron will add additional controls (as below) to address the audit's concerns.*

*UTMB Health completed an internal assessment confirming the low likelihood of abuse of unexpected access privileges resulting from the PeopleSoft upgrade, and confirming that mitigating controls would likely have detected any misuse of such access. Additional measures are being taken to reduce the future risk for PeopleSoft privileged access.*

Corrective Action Plan:

Special Tests and Provisions – Key Personnel

*The UTMB Office of Sponsored Programs will develop and deliver training that is specific to management of commitments on sponsored projects to research faculty, department-based grant administrators and Research Services staff.*

*Implementation Dates: Training materials will be developed by 8/31/2019  
Training will be delivered by 8/31/2020*

*Responsible Person: Toni D'Agostino*

General Controls

*In future releases, Huron's development team will create production builds and submit new releases to Huron's Hosting team. A member of Huron's Hosting Team will then deploy production builds.*

*The support portal will be used as the change management system. A support case will be added when a new build will be deployed to a Hosted ecrt Production environment. The build deployment support case will be updated with the name of the individual who deploys the build.*

*Management to ensure builds are being deployed per change management procedure will perform periodic reviews of Production build deployments. A report can be provided to clients and/or auditors.*

*Implementation Date: November 2018*

*Responsible Person: Darwin VanDyke*

*UTMB will implement Security Comparison and Privileged Access Review procedures as part of every major PeopleSoft project.*

*Implementation Date: March 1, 2019*

*Responsible Person: Darwin VanDyke*

*UTMB has Implemented procedures to review Privileged Access within FMS on a monthly basis.*

*Implementation Date: December 4, 2018*

*Responsible Person: Darwin VanDyke*

**University of Texas Southwestern Medical Center**

Reference No. 2018-126

**Equipment and Real Property Management**

(Prior Audit Issue 2015-153)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

Equipment

A recipient's property records for equipment acquired with federal funds must be maintained accurately and include all of the following: a description of the equipment; serial number or other identification number; the source of funding for the equipment, including the federal award identification number; whether title vests in the recipient or the federal government; acquisition date and cost of the equipment; the percentage of federal participation in the cost of the equipment; the location, use, and condition of the equipment; and ultimate disposition data, including the date of disposal and sale price (Title 2, Code of Federal Regulations (CFR), Section 200.313(d)(1)). A control system must be developed to ensure that adequate safeguards are in place to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft must be investigated (Title 2, CFR, Section 200.313(d)(3)).

Questioned Cost: \$ 0

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

**The University of Texas Southwestern Medical Center (Medical Center) did not maintain accurate property records for 19 (31 percent) of 62 equipment items tested.** Specifically:

- For 5 items, the property records contained an incorrect location for the item. For 2 of those items, the property records were not updated to reflect that the items were transferred to another university when the principal investigator transferred. For 2 of those items, the property records were not updated to indicate that the item was traded-in for credit toward the purchase of a new equipment item. For 1 of those items, the property record indicated that the item was located in a storage closet; however, that item was in use. Those errors occurred because the Medical Center did not always follow its process to inform the asset management department when an item was relocated or disposed. For all 5 items, the Medical Center was able to provide documentation of the item's disposition or it was able to locate the item for physical inspection.
- For 14 items, the property records contained an inaccurate serial number. Those errors occurred because the Medical Center either (1) did not enter information into its property records accurately or (2) did not always appropriately update its property records when conducting its annual inventory. For all 14 items, the Medical Center was able to identify the item through other means, such as the description of the equipment, and it was able to locate the item for physical inspection.

**In addition, the Medical Center did not always adequately safeguard its equipment.** For 1 (2 percent) of 56 equipment items selected for physical inspection, the Medical Center was unable to locate the item. The Medical Center did not identify that the item was missing until auditors selected that item for testing.

Not maintaining accurate property records and not adequately safeguarding equipment increases the risk that equipment may be lost, stolen, or improperly disposed.

**UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER**

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The following awards were affected by the equipment issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
47.074	Biological Sciences	1615938	August 1, 2016, to July 31, 2019
93.000	U.S. Department of Health and Human Services	N01HV028185	September 30, 2002, to December 31, 2011
93.242	Mental Health Research Grants	5R01MH081060-05	April 15, 2008, to September 29, 2013
93.310	Trans-NIH Research Support	1DP2OD001886-01	September 30, 2007, to August 31, 2012
93.351	Research Infrastructure Programs	1S10OD018094-01A1	April 1, 2015, to March 31, 2016
93.393	Cancer Cause and Prevention Research	5R01CA154805-05	December 1, 2012, to June 26, 2017
93.395	Cancer Treatment Research	2P01CA095471-06	September 1, 2007, to July 31, 2013
93.701	Trans-NIH Recovery Act Research Support	3R01DK0389384-S1	September 5, 2009, to August 31, 2010
93.701	Trans-NIH Recovery Act Research Support	3R01DK046993-16S1	January 1, 2010, to March 31, 2010
93.701	Trans-NIH Recovery Act Research Support	3R37DK049835-14S1	January 5, 2010, to March 31, 2010
93.701	Trans-NIH Recovery Act Research Support	1S10RR029731-01	May 20, 2010, to May 19, 2012
93.701	Trans-NIH Recovery Act Research Support	1P30EY020799-01	June 1, 2010, to August 31, 2011
93.837	Cardiovascular Diseases Research	5R01HL067256-09	April 1, 2007, to March 31, 2013
93.837	Cardiovascular Diseases Research	5P01HL020948-35	July 1, 2007, to June 26, 2017
93.838	Lung Diseases Research	5R01HL114977-02	September 1, 2012, to July 31, 2013
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK079862-05	August 6, 2007, to July 31, 2014
93.855	Allergy and Infectious Diseases Research	5R01AI090599-05	September 15, 2010, to August 31, 2017
93.859	Biomedical Research and Research Training	R01GM073165	May 1, 2014, to April 30, 2019

Recommendations:

The Medical Center should:

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

Views of Responsible Officials:

In-transit Property

*Two of the five items referenced above were property transfers. Each item has documented support showing the transaction between agencies, noting a transfer that aligned with a respective PI transfer to another institution. Within Medical Center's inventory, each item retained its last recorded, local location, as the property disposition was pending the fair market sale and receipt of payment. Present policy and practice is to fully dispose of an asset prior to removing it from inventory, with its last local "in service" location rather than document as in transit or a non-Medical Center, off-site location.*

Property Trade-In

*Two of five items were identified as property records not having support for respective trade-in value toward purchase of replacement item. Presently, documentation of such is reliant on departmental notification and transactional initiation.*

Property Physical Location

*One of five items was documented being located in a storage closet, but upon inspection, the equipment was in close proximity and being used in a lab environment. At time of requisition, the property's location was noted as the storage closet, rather than the principal investigator's lab location. Upon receipt, the asset record was then created using the location information provided on the requisition/purchase order.*

Property Identification

*Asset Management Administration inventory collection personnel, as a matter of standard procedure, are instructed to validate asset attributes as a component of the physical inventory process. UTSW has approximately fifty-seven thousand (57,000) capital and controlled assets in the PeopleSoft Asset Management system (AMS). Certain variables, such as comprehensiveness and clarity of scanned documentation (invoices, vendor quotes etc.) used to populate asset record attributes upon creation, can contribute to inconsistencies between the PeopleSoft AMS records and the equipment.*

Corrective Action Plan:

*UT Southwestern will update its property management system and develop a methodology to reflect assets that are "in-transit". This coding will be used for equipment that has been transferred with a respective PI to another institution, but has not yet been removed from UT Southwestern's asset list pending final sale of the asset.*

*Medical Center's Asset Management Administration will work with Purchasing to modify existing processes and supporting documentation to capture trade-in activity and align with purchasing procurement tools' (Jaggaer and PeopleSoft) system capabilities.*

*Medical Center updates location attributes during physical inventory and will continue to conduct periodic refresher training exercises for Asset Collection team members on the importance of documenting new locations. Additionally, Asset Management will implement statistical audit processes to ensure the asset collection team is properly adjusting records during the physical inventory process. However, present processes and systems do not allow for real time location modifications. Accordingly, the imperative is to assure contemporaneous updates during all reviews, including standard inventory checks, as well as preparatory activity for audit reviews and visits.*

*Medical Center's Asset Management Administration will strengthen internal controls and implement a statistical audit process to ensure the asset collection team is properly adjusting records during the physical inventory process.*

*Asset Management Administration will strengthen its internal controls and statistical monitoring. Further, Asset Management Administration will work with Sponsored Programs Administration to remind the research community the importance and requirement of all Departments to timely and comprehensively report misplaced or missing assets timely. Medical Center policy and procedural documents require the custodial department/personnel, having intimate knowledge of the equipment's status, to complete a UTSW Police/Incident Report and a Missing or Stolen form for State Departments, Institutions, and Agencies.*

*Implementation Date: March 1, 2019*

*Responsible Person: Charles Cobb*

Reference No. 2018-127

**Period of Performance**

(Prior Audit Issue 2015-154)

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Statistically valid sample – No and not intended to be a statistically valid sample**

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

A recipient may charge to a federal award only allowable costs incurred during the period of performance and any costs incurred before the federal award that were authorized by the federal awarding agency or pass-through entity (Title 2, Code of Federal Regulations (CFR), Section 200.309). Unless the federal awarding agency or pass-through entity authorizes an extension, a recipient must liquidate all obligations incurred under the federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award (Title 2, CFR, Section 200.343(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 ensure that all costs charged to federal awards were incurred within the period of performance and did not always liquidate its obligations within the required time frame.** Specifically, for 3 (5 percent) of 61 transactions tested, the Medical Center incurred the cost after the period of performance for the federal award. Those 3 transactions totaling \$26,431 occurred between 16 days and 73 days after the end of the award's period of performance. For one of those transactions, the Medical Center also did not liquidate the obligation within the required time frame. The Medical Center subsequently transferred those costs to non-federal accounts; therefore, there are no questioned costs.

In addition, for 1 (2 percent) of 61 transactions tested, the Medical Center incurred the cost within the period of performance; however, it did not liquidate the obligation within the required time frame. The Medical Center asserted that it did not pay the invoice associated with that transaction in a timely manner due to an issue in its financial system.

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 performance issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
12.420	Military Medical Research and Development	W81XWH-14-1-0328	September 15, 2014, to April 30, 2018
93.393	Cancer Cause and Prevention Research	5R00CA160640-05	August 15, 2012, to January 31, 2018
93.866	Aging Research	16091646-04  (the Medical Center received funds as a pass-through from the Joan & Sanford I. Weill Medical College of Cornell University)	May 1, 2016, to April 30, 2018

Recommendation:

The Medical Center should develop and implement a process to ensure that it complies with all period of performance requirements for federal awards and that it liquidates its obligations within the required time frames.

Views of Responsible Officials:

*The three expenditures incurred out of period were initially expensed to the award, but not charged to the federal government. All incurred expenses were moved off the respective award sub-ledger as noted, and the award was subsequently fully liquidated. The one item obligated during the period of performance and not liquidated timely was due to an incorrect date entered in PeopleSoft.*

Corrective Action Plan:

*To ensure compliance with Period of Performance and liquidation requirements, Medical Center will enhance its internal control via improved system controls, reconciliation, and exception reporting.*

*1) Medical Center will utilize PeopleSoft 9.2 commitment control functionality and consider options for placing additional restrictions on override access.*

*a. Noting that any override access generates risk, Sponsored Programs Administration will implement exception reporting to identify all transactions (debit/credit) incurred outside period of performance. This report will be executed and reviewed monthly, as well as throughout the individual award close-out process.*

2) In January 2019, Sponsored Programs Administration implemented updated pre-close and close processes that assures timely review and execution of all final transactions against a termed award.

3) Sponsored Programs Administration will implement reconciliation reporting to assure PeopleSoft 9.2 dates align with actual Notice of Award date, as entered within system of record (e.g. eGrants).

*Implementation Date:*      *March 1, 2019*

*Responsible Person:*      *Megan G. Marks*

## Summary Schedule of Prior Year Audit Findings

Federal regulations (Title 2, Code of Federal Regulations, Section 200.511(a)) states, “the auditee is responsible for follow-up and corrective action on all findings.” As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2017 Schedule of Findings and Questioned Costs.
- Each finding in the 2017 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, 2018) has been prepared to address these responsibilities.

### Texas A&M AgriLife Research

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).

**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.

Initial Year Written: 2011  
Status: Implemented

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

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.

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**TEXAS A&M AGRILIFE RESEARCH**

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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>
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

Corrective Action:

Corrective action was taken.

**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: 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).

**UNIVERSITY OF HOUSTON**

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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.

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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
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

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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
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

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<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>	<b>Questioned Costs</b>
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
<b>Total Questioned Costs</b>				<b>\$ 9,875</b>

Corrective Action:

Corrective action was taken.

**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)).

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  
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:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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

Corrective Action:

This finding was reissued as current year reference number 2018-109.

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 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)).

Initial Year Written:	2015
Status:	Implemented
U.S. Department of Defense	

**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.

**UNIVERSITY OF TEXAS AT AUSTIN**

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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
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
12910	Research and Technology Development	D11AP00263 AMD 0003	April 20, 2011 to April 19, 2014

Corrective Action:

Corrective action was taken.

**University of Texas at El Paso**

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: 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.

Corrective Action:

Corrective action was taken.

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

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).

Initial Year Written: 2014  
Status: Implemented

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.

**UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON**

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

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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

Corrective Action:

Corrective action was taken.

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)).

Initial Year Written:	2014
Status:	Partially Implemented
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

**UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER AT HOUSTON**

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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.

The following awards were affected by the issues discussed above.

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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

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<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.837	Cardiovascular Diseases Research	5R01HL102830-04	July 7, 2010 to May 31, 2015
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

Corrective Action:

This finding was reissued as current year reference number 2018-114

**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).

Initial Year Written: 2015  
Status: Implemented

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.

Corrective Action:

Corrective action was taken.

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)).

Initial Year Written: 2015  
Status: Partially Implemented

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.

Corrective Action:

This finding was reissued as current year reference number 2018-126.

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.

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:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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

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

Corrective Action:

Corrective action was taken.

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)).

Initial Year Written: 2015  
 Status: Partially Implemented

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

**UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER**

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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:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
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

Corrective Action:

This finding was reissued as current year reference number 2018-127.

# Appendix

## Objectives, Scope, and Methodology

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### 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) express an opinion on whether the State complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on the Research and Development Cluster in accordance with the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

### Scope

The audit scope covered federal funds that the State spent for the Research and Development Cluster from September 1, 2017, through August 31, 2018. The audit work included control and compliance tests at eight 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.

### Sampling Methodology

Auditors selected nonstatistical 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 March 1, 2018. 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 nonstatistical samples primarily through random selection. In some cases, auditors selected additional items for compliance testing based on risk.

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

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 for samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of design of controls to assess the sufficiency of each higher education institution's control structure.
- Tests of design and effectiveness of general controls over information systems that supported the control structure related to federal compliance.

Criteria used included the following:

- Title 2, Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- U. S. Office of Management and Budget Circular A-133.
- 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 October 2018 through January 2019. 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 Title 2, Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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