February 26, 2013

Dr. Daniel:

We have completed an audit of the Norman Hackerman Advanced Research Program (NHARP) Grants, and the detailed report is attached for your review. The objective of this audit was to provide assurance that UT Dallas complies with NHARP grant restrictions and requirements as outlined by the Texas Higher Education Coordinating Board (THECB). The scope of our audit was fiscal year 2012.

Overall, it appears that UT Dallas generally complies with NHARP grant restrictions and requirements. The audit resulted in one recommendation regarding enhancing the review of expenses to ensure compliance with the grant.

Management has reviewed the recommendation and has provided a response and anticipated implementation date. Please let me know if you have any questions or comments resulting from this audit.

[signature]

Toni Messer Stephens
Executive Director of Audit and Compliance

The University of Texas at Dallas
   Mr. Rafael Martin, Associate Vice President for Research
   Ms. Lori Taccino, Director of Post Award Management
Members of the UT Dallas Audit and Compliance Committee:
   Dr. Hobson Wildenthal, Executive Vice President and Provost
   Mr. Terry Pankratz, Vice President Budget and Finance
   Dr. Calvin Jamison, Vice President for Administration
   Ms. Wanda Mizutowicz, Associate Vice President Budget and Finance
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   Alan Marks, Attorney
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   Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager
State of Texas Agencies:
   Legislative Budget Board
   Governor's Office
   State Auditor's Office
   Sunset Advisory Commission
   Texas Higher Education Coordinating Board

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Executive Summary

NHARP Grants Audit Report No. R1315 Audit No. C3	**Responsible Party:** • Lori Taccino, Director of Post Award Management	**Auditors Assigned:** • Ali Subhani, CIA, CISA, GSNA, In-Charge Auditor
Audit Objective: The objective of this audit was to provide assurance that UT Dallas is in compliance with NHARP grant restrictions and requirements. The Texas Higher Education Coordinating Board (THECB) requires such audits every two years.		
Audit Recommendations: ***Ensure Controls over Expenditures Are Enhanced*** - Management should continue to enhance monitoring procedures so that no unallowable expenditures are charged to NHARP grants and should reimburse the grant sponsor for all expenditures that are confirmed to be unallowable.		
Conclusion: Based on the results of the audit work performed, it appears there has been some improvement over the compliance program for NHARP grants since the previous audit. Implementation of the above recommendation will help enhance compliance with the NHARP grant conditions.		

Does Management Agree with Recommendations? Yes ☑ No ☐	**Recommendations Will Be Implemented:** 03/01/2013

Background

According to the Texas Higher Education Coordinating Board's (THECB) website, "*the Norman Hackerman Advanced Research Program is a competitive peer-reviewed grant program created in 1987 by the 70th Texas Legislature. The purpose of the program is to encourage and provide support to faculty members and students in Texas institutions of higher education, both public and independent, to conduct basic research.*" This program awards grants in science and engineering.

Formerly Advanced Research Program (ARP) grants, this legislation charged the THECB with administration of the grant program. Institutions are required to submit project proposals detailing the budget categories on which the monies will be spent. Grant funds are only supposed to be used in the areas outlined in the proposal. The budget monies outlined in the UTD proposals included salaries to support students or individuals that were involved with the research; and providing monies for any required materials and supplies.

Although the Offices of Finance and Sponsored Projects handle these grants, the Principal Investigators (PIs) are primarily responsible for grant compliance. See Appendix 1 for a listing of the NHARP grants audited during this audit, which totaled $328,460.

Audit Objective

The objective of this audit was to provide assurance that UTD complies with NHARP grant restrictions and requirements. The Texas Higher Education Coordinating Board (THECB) requires such audits every two years.

Scope and Methodology

The scope of this audit was fiscal year 2012 (September 1, 2011, through August 31, 2012). Our audit fieldwork concluded on January 24, 2013. Refer to THECB website at www.thecb.state.tx.us/**NHARPAudit** for detailed grant restrictions.

To satisfy our objectives, we performed the following:

- Gained an understanding of the NHARP grant program by reviewing grant restrictions, reviewing the strategies outlined in the grant, reviewing procedures related to the award distribution, and interviewing employees in Contract and Grant Accounting and the Office of Sponsored Projects.

- Verified that UTD complied with the grant conditions by testing sample of expenses.

- Verified the integrity of the management control system.

- Verified that personnel appointed to the grants actually worked on the grants and ensured that no faculty level personnel were paid out of grant funds besides summer appointments.

- Verified that equipment purchased with grant funds complied with the grant agreement, and was actually used on the grant.

- Verified that travel paid from grant funds was actually related to grant activities and conformed to state guidelines.

- Verified that the grantee received approval from the Coordinating Board for budget transfers in excess of those authorized by grant conditions.

- Verified that no overhead was charged to the grant.

- Verified that all Principal Investigators (PI) had current Conflict of Interest forms.

Where applicable, our examination was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department.

Audit Results and Management's Responses

According to The UT System, a significant recommendation is one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. There were *no* recommendations considered significant to University operations.

Our evaluation of the grant program indicated that the following controls currently exist:
- Grant files contain the appropriate documentation, such as the proposals, certification forms, and award letters.
- Conflict of interest forms are on file and current for all PIs.

Although the above controls exist, opportunities to enhance controls are listed below.

Ensure Controls over Expenditures Are Enhanced

A management integrity system helps ensure that appropriate controls exist to ensure compliance with the terms of the grant. The grant conditions outlined by the THECB[1] state the following:

Organizational accountability system - Each grantee institution shall have a system established in writing to ensure that appropriate officials provide necessary organizational reviews and approvals for the expenditure of funds and for monitoring project performance and adherence to grant terms and conditions[1]

In performing our audit procedures we found that controls over expenses need to be enhanced to ensure proper monitoring and adherence to grant terms. Without an appropriate review, the risk of unallowable expenditures being charged to the grant is increased. During the review of expenditures we noted two scholarship expenditures that totaled $5,484 had been charged to project # 009741-0020-2009. The scholarship charges were not routed through the Office of Research as required by normal business process. The Office of Finance had the responsibility for setting up workflow in the PeopleSoft application.

Recommendation: Management should continue to enhance monitoring procedures so that no unallowable expenditures are charged to NHARP grants. In addition, management should reimburse the grant sponsor for all expenditures that are confirmed to be unallowable after further research.

Management's Response and Action Plan: *At the request of Research the charges have been removed from the awards by Finance who had approved them. Research is working with Finance to improve Finance's ability to route the charges through Research to approve and ensure Finance is not approving these charges.*

Estimated Date of Implementation: *03/01/2013*

Responsible Party: *Office of Finance and Office of Research*

Status of Prior Audit Recommendations

The following is the status of the recommendations from Internal Audit Report No. R1212, *Advanced Research Program Grants*, dated February 23, 2012.

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[1] http://www.thecb.state.tx.us/reports/pdf/1855.pdf

Recommendation	Status
Management should continue to enhance monitoring procedures so that no unallowable expenditures are charged to NHARP grants. In addition, an appropriate explanation from the PI should be documented on expenditures where it cannot be easily determined that the expenditure would have directly benefited the grant. Lastly, management should reimburse the grant sponsor for all expenditures that are confirmed to be unallowable after further research.	Partially implemented. See recommendation above.

Conclusion

Based on the results of the audit work performed, it appears there has been some improvement over the compliance program for NHARP grants since the previous audit. Implementation of the above recommendation will help enhance compliance with the NHARP grant conditions.

We appreciate the courtesy and cooperation received from the Office Research throughout the audit.

Appendix

The audit covered the following NHARP project numbers:

Project Number	Grant Name	Department	UTD Cost Center	Award Amount	Expenses at 12/31/12
009741-0020-2009	Optimize Performance and Lifetime of Embedded Flash-Memory Systems	Computer Science	37421006	$132,000	$132,820
009741-0068-2009	Patterning semiconductor surfaces via chemical self assembly for biomedical and energy applications	Engineering	37121005	$196,460	$189,509