



Office of Internal Audit

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December 15, 2015

Dr. Hobson Wildenthal, President *ad interim*
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Contracts and Grants as part of our fiscal year 2015 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of our audit was to ensure UT Dallas is in compliance with federal and grant requirements.

Based on the audit work performed, we conclude that while UT Dallas is in general compliance with contract and grant requirements, opportunities exist to enhance compliance, management oversight, information security, and the efficiency of operations. The attached report details these opportunities.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:

Mr. Rafael Martin, Associate Vice President for Research
Ms. Kelly McKinney, Director - Office of Post-Award Management
Ms. Emily Lacy, Assistant Director – Office of Sponsored Projects
Dr. Kimberly Laird, Associate Vice President and Controller
Mr. Greg Argueta, Director Accounting and Financial Reporting

Members of the UT Dallas Institutional Audit Committee:

External Members:

Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Julie Knecht
Dr. Inga Musselman, Acting Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Mr. David Crain, Vice President and Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Mr. Timothy Shaw, University Attorney

The University of Texas System:

System Audit Office

State of Texas Agencies:

Legislative Budget Board
Governor's Office
State Auditor's Office
Sunset Advisory Commission



Executive Summary

Contracts and Grants, Report No. R1608

Audit Objective and Scope: The objective of our audit was to ensure UT Dallas is in compliance with federal and grant requirements. The scope was fiscal years 2014 – 2015, through November 30, 2014.

The following is a summary of the audit recommendations by risk level. See Appendix A for additional details.

Recommendation	Risk Level	Estimated Implementation Date
(1) <i>Improve Subrecipient Monitoring Processes and Update Institutional Policy</i>	High	July 31, 2016
(2) <i>Enhance Review Process for Sponsored Projects</i>	High	July 31, 2016
(3) <i>Improve Procedures over Cost Transfers</i>	Medium	June 30, 2016
(4) <i>Enhance Controls around the Reporting Process</i>	Medium	June 30, 2016
(5) <i>Ensure User Access is Appropriate</i>	Medium	December 31, 2015
(6) <i>Ensure Documentation is Maintained for Contracts and Grants</i>	Medium	March 31, 2016

Responsible Vice President:

- Dr. Bruce Gnade, Vice President for Research
- Mr. Terry Pankratz, Vice President for Budget and Finance (3 and 4 only)

Responsible Parties:

- Mr. Rafael Martin, Associate Vice President for Research
- Ms. Kelly McKinney, Director - Office of Post-Award Management
- Ms. Emily Lacy, Assistant Director – Office of Sponsored Projects
- Dr. Kimberly Laird, Associate Vice President and Controller (3 and 4 only)
- Mr. Greg Argueta, Director of Accounting and Financial Reporting (3 and 4 only)

Staff Assigned to Audit: Brandon Bergman, CFE, Project Leader; Ray Khan, Auditor II; Students in the Internal Auditing Education program: Lance Giles, Jacki Jiao, and Caroline Miller



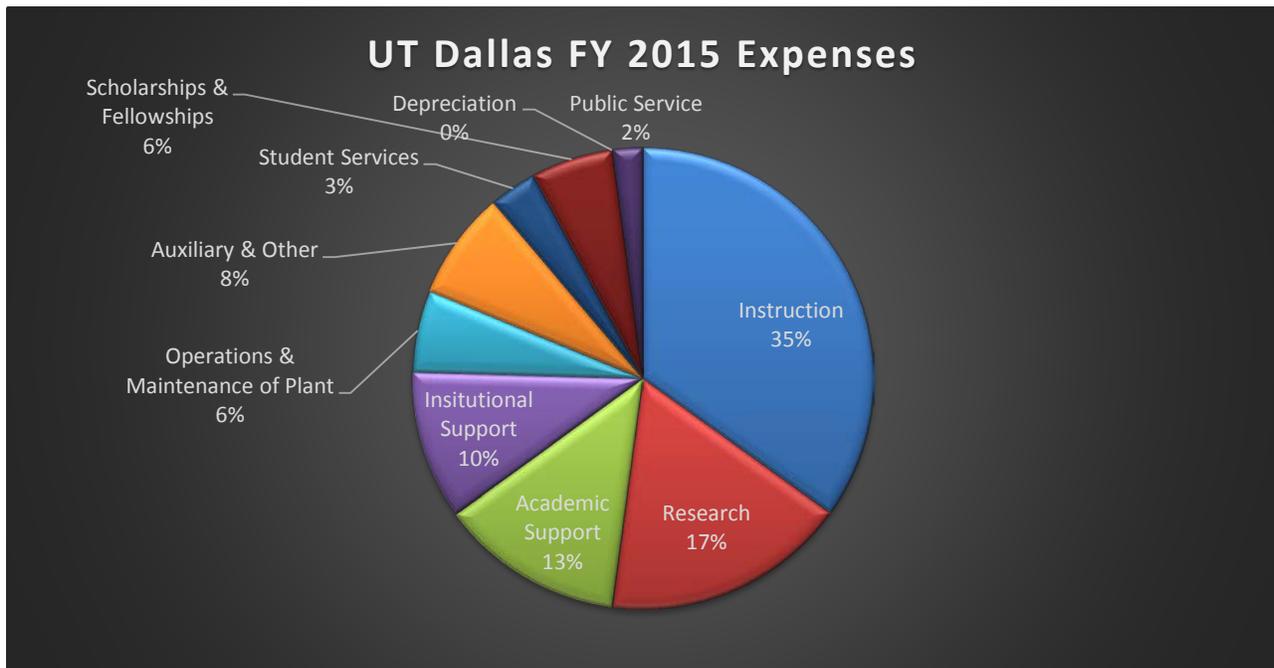
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Background

According to the FY 2015 Schedule of Federal Financial Assistance, federal expenditures totaled \$120,184,868 at August 31, 2015. As shown below, research expenditures represent approximately \$81.5 million, which is about 17% of the University's total expenses.



Contracts and grants at UT Dallas are handled primarily in the [Office of the Vice President for Research](#). Key to the success of contract and grant management are the Offices of Sponsored Projects and Post Award Management.

- Sponsored Projects is responsible for coordinating externally funded research projects, assisting with negotiations, and also assisting with re-budgeting, time extensions, and tracking technical reports.
- Post Award Management provides central oversight for the fiscal activities for all sponsored projects once they are awarded and helps ensure compliance with applicable federal and state rules and regulations. Federal Grants and Contracts comprise approximately 11% of total UT Dallas revenues.

Audit Objective

The objective of our audit was to provide reasonable assurance that UT Dallas is complying with federal and grant requirements.



Scope and Methodology

The scope of this audit was FY 2014 and 2015 through November 30, 2014 and our fieldwork concluded on September 23, 2015. To satisfy our objectives, we performed the following:

- Gained an understanding of contract and grant policies, processes, and operations.
- Determined if internal controls regarding the completion/submission and accuracy of final financial reports of completed projects is adequate.
- Reviewed conflict of interest policies and determined if researchers were in compliance with applicable UT System policies.
- Determined if UT Dallas was in compliance with contract and grant terms, requirements, and regulations.
- Determined if internal controls over both federally awarded and non-federally awarded project expenses, including payroll and scholarships, were adequate to ensure compliance with applicable federal and project requirements and proper approvals.
- Reviewed cost transfers to ensure internal controls were adequate.
- Tested for compliance with UT Dallas policy requirements over subrecipients and subcontractors.
- Reviewed user accesses to ensure a proper segregation of duties and business need was granted to the PeopleSoft Grants Management module.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *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 or audit work, and management of the internal auditing department.

Audit Results and Management's Responses

Controls

Our audit work indicated that the following controls currently exist:

- ✓ The Office of Post Award Management (OPM) grants electronic routing of approvals for interdepartmental transfers (IDTs) and eProcurement purchases for sponsor funded project cost centers.
- ✓ The process for creating sponsored project cost centers requires review from staff members of the Office of Sponsored Projects (OSP), OPM, and the Office of Budget and Finance.
- ✓ OSP requires review of all proposals before they are submitted to the sponsor.
- ✓ Project files contain documented terms and agreements between the University and the sponsor, including any modifications.



- ✓ Proposal and award documents are scanned into a shared network drive to ensure document retention.

Audit Recommendations

Priority Findings – UT System

A UT System priority finding is defined by the UT System Audit Office as: “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”¹

We have **no UT System Priority Findings** resulting from this audit.

Although the above controls are in place, opportunities exist to ensure compliance over contracts and grants processes as outlined below. See Appendix A for the Priority Findings and Risk Matrix defining the various risk factors and risk levels for each audit recommendation.

(1) **Improve Subrecipient Monitoring Processes and Update Institutional Policy**

As outlined in the Code of Federal Regulations (CFR) 2 CFR 200.92², “subrecipient means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.” As of August 31, 2015, UT Dallas had approximately \$1.3 million in subrecipients³.

Subrecipient monitoring and management is outlined at 2 CFR 200.330 – 332. Subrecipient monitoring regulations are also outlined at UT Dallas policy UTD BP3032⁴, *Sponsored Programs Administration Time and Effort Reporting*. The policy provides guidance to principal investigators and OPM regarding subrecipient monitoring. Additionally, the Office of Research outlines subrecipient monitoring on its website.⁵ Federal regulations 2 CFR 200.331 (d) outlines requirements for monitoring subrecipients, and noncompliance with these regulations could result in a loss of federal funding.

While some of the monitoring procedures outlined in the policy are being performed, such as requesting the subrecipient’s federal audit report, the following are not:

¹ Appendix A defines the risks for all internal audit recommendations.

² http://www.ecfr.gov/cgi-bin/text-idx?SID=bae1363d361cd6c0a25f7e334d815ae7&mc=true&node=pt2.1.200&rgn=div5#se2.1.200_193

³ UT Dallas Schedule of Expenditures of Federal Awards, 8/31/15

⁴ <http://policy.utdallas.edu/utdbp3032>

⁵ <https://research.utdallas.edu/opm/sub-award-management>



- There is no process for monitoring invoices received from subrecipients. Instead, OPM relies on the principal investigators to do this.
- There are no random expenditure audits, desk reviews, or on-site audits being conducted.
- There are no procedures to assist with the closeout of subrecipient awards by OPM.

In addition, the policy, that also outlines other contract and grant procedures, has not been updated since 2008.

Recommendation: We recommend that UTD BP3032, including the policy for subrecipient monitoring, be reviewed and updated. Procedures should be implemented to ensure that subrecipient monitoring is conducted in accordance with federal requirements and UT Dallas policies.

Management's Response: *The Office of Post Award Management (OPM) concurs the need to update the UTDBP3032 policy. The Office of Post Award and Office of Sponsored Projects have already developed and implemented several items to ensure compliance to 2 CFR 200.330 Sub-recipient Monitoring and Management and University policies.*

1. *Drafted new Sub-recipient monitoring procedure – this procedure is currently reflected on the Office of Post Award Management website: https://research.utdallas.edu/wiki/guidelines/opm/subrecipient_monitoring*
2. *OPM monitors the sub recipients fiscal activity/close-outs*
 - a. *Maintaining a tracking spreadsheet of subcontracts – A133 Sub Contract Monitoring*
 1. *Identifies active subcontracts*
 - a. *Lists sub recipients who require Audit certification Letters to be sent out based on recipient of federal award*
 - i. *Identifies Audit Certification Letter status*
 1. *Sent out/Received*
 2. *Monitor Subcontracts budget information(Budget to Actuals)*
 - a. *Budget amounts by account code*
 - b. *Expenses*
 - c. *Encumbrances*
 - d. *Budget available*
3. *Notify PI to begin review at least 90 days prior to conclusion of the subaward period of performance*



Estimated Date of Implementation:

Office of Sponsored Projects to implement Risk Assessment Questionnaires on all Sub contracts with a FY 16 start date

Office of Post Award Management – adding to the close-out/burn rate process a reminder to the PI's to begin subcontractor review. Beginning November 2015.

Work with UTD Administration to update UTD BP3032 business policy - July 2016

Person Responsible for Implementation: *Kelly McKinney, Director of Post Award Management*

(2) **Enhance Review Process for Sponsored Projects**

Current OPM procedures⁶ require approval on expenditures on sponsored projects after the PI has approved them. Also, monitoring procedures exist to audit expenditure balance and award activity to verify compliance with University and sponsor regulations, ensure allowability, allocability, and reasonableness. Without reviews, approvals, and monitoring, the risk of noncompliance is increased which could impact sponsored funding. The following opportunities for enhancing the review processes over sponsored projects were noted during our audit:

- (a) Four expenditures, totaling \$4,343.30, were not in compliance with the Office of Management and Budget (OMB) Cost Principles for Educational Institutions (2 CFR 220, formerly OMB Circular A-21) or project guidelines.
- (b) Approvals from OPM are primarily being given after the expense has been charged. Scholarship appointment forms are not being routed to OPM for review and approval. It was also noted during expenditure testing that a majority of Travel Authorizations are not being routed to OPM for review and approval.
- (c) There is no formal documenting or monitoring process for unique requirements related to a project. Without monitoring for such requirements, reviewers are unaware of unique requirements that may be imposed by certain contractors and grantors.
- (d) Expenses from project cost share cost centers are not being approved by OPM.

⁶ <https://research.utdallas.edu/opm/roles-and-responsibility>



Recommendation: Given the growth of the University and contract and grant expenses, OPM staff should review, update, and strengthen existing procedures to determine the levels of review required as well as documentation of any unique requirements. Unallowable expenses noted should be removed from the grants and charged to university funds.

Management's Response: *OPM concurs the need to strengthen institutional procedures for approving contract and grant expenditures and will continue to work with the respective departments who are the owners/managers of the processes and modules that facilitate such expenditures.*

- *OPM concurs that 4 expenditures totaling \$4,343.30 were considered unallowable per OMB UG 2 CFR 200 guidelines. OPM will work with the responsible departments to remove unallowable expenses identified.*
- *The Office of Post Award Management agrees that expenditures require approval by OPM on sponsored projects after the PI has approved them. However, due to OPM not being the managers of the institutional processes and modules that facilitate the Scholarships and Travel expenses, OPM finds it best that the owners of these are better enabled to provide the Management Response and solution/implementation of this audit finding.*
 - *OPM has reached out to the Director of Financial Services and the Executive Director of Procurement to discuss solutions to rectify these issues.*
 - *Scholarships: OPM has developed an after-the-fact approval procedure of Scholarships*
- *At the conclusion of each Finance month end closing an OPM Manager of Post Award will run a custom PeopleSoft Query (RS_OPM_TUITION_MONITORING).*
- *OPM Manager will review all contract and grant scholarships expenses for that month and review for allowability and budget*
 - *Any expense that is non-compliant the OPM Manager will contact department to resolve*
 - *Department will have 30 days to resolve*
 - *If no response OPM Manger will report non-compliance to Director of Post Award for further action*
- *The Office of Sponsored Projects reviews the terms and conditions of every award received. Unusual or unique conditions of an award are brought to the PI's attention and the PI verifies he/she understands the requirement and agrees to comply with it. When the award is processed and a cost center created, the PI receives a new award notification, as well a copy of the award and all terms/conditions. The PI signs the new*



award notification saying they have read and understood the terms/conditions and agree to abide by them. Financial conditions are communicated to OPM to ensure the special conditions are met through the life of the project. Compliance issues are worked through prior to award between OSP, PI and Research Compliance. Programmatic conditions are the PI’s responsibility since the PI is in charge of the technical aspects of the project.

Estimated Date of Implementation: OPM will work with the respective departments to remove the unallowable expenses noted in 2(a) above – Estimated completion of removing unallowable expenses March 2016

OPM to monitor scholarship expenses – November 2015

OPM will work with UTD Administration to update all applicable Sponsored Projects policies – July 2016

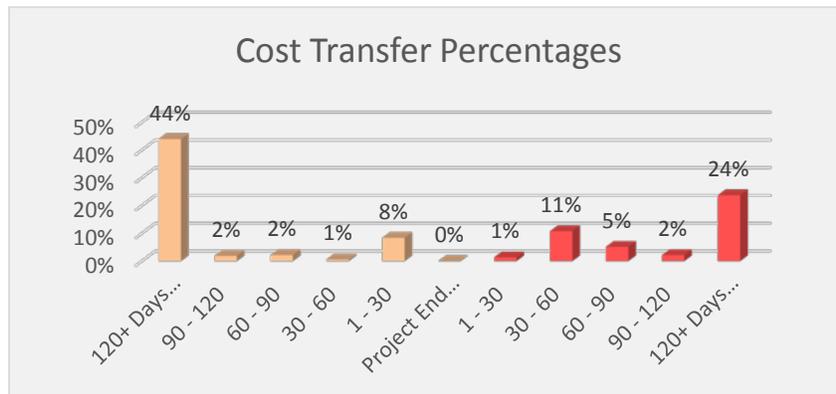
OPM will continue communication with the Procurement Office to ensure that the Travel and Expense module will route Travel Authorizations for approval to OPM.

Person Responsible for Implementation: Kelly McKinney, Director of Post Award Management

(3) **Improve Procedures over Cost Transfers**

UTD BP3032 outlines procedures for cost transfers. Not following the procedures could result in unallowable expenditures being moved to a sponsored project. During our review, the following was noted:

- 24% of expenditures transferred off of projects during FY14 occurred more than 120 days after the project’s end date.





- In addition, 35% of expenditures reviewed were transferred onto projects more than 90 days after the initial purchase was made and did not obtain the proper approval that is required per UTD BP3032. This policy requires cost transfers occurring after 90 days of the original transaction and/or exceeding five percent of the annual award, must be approved by the V.P. for Administration.

Recommendation: The University should enhance its process to reduce the occurrence of cost transfers occurring on sponsored projects after the project's end date. After updating UTD BP3032 as recommended at (1) above, cost transfers should also follow the procedures that have been put in place, and further approval should be required for cost transfers after 90 days from the original transaction date.

OPM Management's Response: The Office of Post Award Management agrees the need to strengthen the cost transfer process. However, due to OPM not being the managers of the institutional processes, modules and policies that facilitate expenses, OPM finds it best that the owners of these are better enabled to provide the Management Response and solution/implementation of this audit finding. Note: OPM does communicate with the Office of Finance to ensure that any cost transfer after the 45 day end date of the award may be removed and/or added to the cost center before approving the transaction. This communication is necessary to make sure that the project is not in the final closeout of billing and the transaction is allowable and able to be processed. OPM has had a several meetings with the Director of Accounting and Financial Reporting to discuss solutions to strengthen the cost transfer process.

Accounting and Financial Reporting Management's Response: Accounting and Financial Reporting will assist Post-award Management in the policy updates to BP3032 where applicable to timing and approvals of cost transfers. The planned new procedures described in the management response to recommendation (4) will address closing out projects (including cost transfers) within the 90 day timeframe. These new procedures will also assist in monitoring compliance with the revised policy.

Estimated Date of Implementation: June 30, 2016

Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting

(4) Enhance Controls around the Reporting Process

Project terms dictate when a project's final reports are due to the sponsor. Typically, final financial reports are due from 45 to 90 days after the project ends. Timely and accurate submission helps ensure continued funding by sponsors.



The Office of Accounting and Financial Reporting prepares and submits final financial reports to the project sponsor. We tested completed projects to determine if the reports were being completed as required. We found that 50% of final project reports were either issued after the required due date, or had yet to be issued and the due date had passed. In addition, we tested two recent financial reports and noted that the reports were issued before the projects were closed within PeopleSoft and had a deficit balance that needed transferring. Depending on the level of detail required by the sponsor in their final reporting criteria, the risk of inaccurate reporting could occur.

Budget overages are also being transferred off the project after the final report has been issued.

Recommendation: The process for issuing final reports should be enhanced to ensure that reports are being issued to the sponsor by the required date in the project documentation. Also, the project cost center should be closed out and any overages transferred off the account before the final report is issued to the sponsor.

Management's Response: Accounting and Financial Reporting will work with the Office of Research to develop an updated close-out procedure. Within the procedure, monthly processes will be updated to facilitate timely cost transfers and adjustments. Finally, a reporting flag will be added to the production spreadsheet for tracking final report due dates. This flag will assist the Financial Accountants to establish meaningful deadlines for the responsible departments. In addition, the flag will allow the Sponsored Programs Manager to track progress and ensure that close-out and reporting work is completed per the award agreement.

Estimated Date of Implementation: June 30, 2016

Person Responsible for Implementation: Greg Argueta, Director of Accounting and Financial Reporting

(5) **Ensure User Access Is Appropriate**

We determined if employees who had access to the PeopleSoft Contracts and Grants modules had appropriate access levels based on their job responsibilities. Of the 41 users, we found three employees outside of the contracts and grants process that had the ability to modify information on the grants, including the ability to adjust the project's budgets. These employees did have a business reason to review the information; however, they should not have the access to modify information.

Recommendation: A process should be developed so that modify access to the contract and grant PeopleSoft modules is restricted to only employees with a position that requires modify access.



Management's Response: *Office of Post Award Management has added a business process that the Director of Post Award Management or designee(Manager level)will run a customized query on quarterly basis to ensure that only authorized employees have access to the PeopleSoft grant modules.*

PeopleSoft query, RS_OPM_SEC_AUD_ROLEUSR identifies UTD employees and the roles assigned. If any unauthorized employees are on the UTD Grant roles OPM will process a PeopleSoft JIRA to remove.

Please note that only the Director of Post Award and Manager of Post Award have the authority to process the security access to PeopleSoft Grants module.

Grant roles to verify are as follows:

- *Grant Director*
- *Grant Professionals Folder*
- *Grant Specialist OPM*
- *Grant Specialist OSP*
- *Grant Security*
- *Grants Viewer*

Estimated Date of Implementation: *December 2015*

Person Responsible for Implementation: *Kelly McKinney, Director of Post Award Management*

(6) **Ensure Documentation Is Maintained for Contracts and Grants**

Internal Audit conducted testing to ensure that documentation was properly maintained for contracts and grants. Supporting documentation is necessary to evidence compliance with sponsored projects requirements, including federal regulations. Generally, records retention requirements are outlined by the UT Dallas records retention policy⁷ and federal guidelines. We noted the following:

- We were unable to accurately tie scholarship amounts charged to projects due to a lack of supporting documentation for scholarships.
- During our review of expenses charged to federally sponsored projects, we noted that 18% of reviewed expenses required a rebudgeting of the initial project budget to provide available funding for the purchase made; however, no internal documentation of the re-budget was available. We did note that re-budgeting documentation which requires sponsor approval was maintained within the project file.

⁷ http://www.utdallas.edu/ehs/download/Records_Retention_Schedule.pdf



Recommendation: Procedures should be improved, especially over internal re-budgets and scholarships, to ensure that documentation is maintained to support contract and grant activities in compliance with records retention requirements.

Management’s Response: *Office of Research currently follows the UT Dallas records retention policy and any applicable federal requirements that pertains to retention of documents. The Office of Post Award has developed and implemented a couple items to strengthen business procedures:*

- *As stated in 2 (b) above OPM has developed a procedure to approve scholarships charged to contract and grant cost center and will continue to reach out to the Office of Finance to strengthen the scholarship approval process.*
- *The Office of Post Award has developed and implemented a new re-budgeting procedure with differentiates the two types of re-budgets and document retention requirements: <https://research.utdallas.edu/wiki/guidelines/opm/rebudgeting>.*

Estimated Date of Implementation:

Scholarships – OPM will work with Office of Finance for a viable resolution to ensure scholarship expenditures are approved before posting to PeopleSoft financials - March 2016

Re-budgeting – OPM will refine Re-budget procedure to allow for monitoring of re-budget changes 25% or more of total award – February 2016

Person Responsible for Implementation: *Kelly McKinney, Director of Post Award Management*

Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R1103, *Unallowable Costs*, dated January 5, 2011. The recommendations not implemented were included in UT Dallas Internal Audit Report No. R1519, *Follow-up of Prior Audit Recommendations*.

Recommendation	Implemented?	Revised Date of Implementation & Responsible Office
Develop a Policy for Agency Funds	No	December 31, 2015, Accounting & Financial Reporting
Institute a Review Process for Cost Sharing	Yes	



Recommendation	Implemented?	Revised Date of Implementation & Responsible Office
Develop a Process to Ensure Scholarships, Fellowships, and Tuition Remissions Comply with A-21	No	March 2016 – Note: OPM has developed a procedure to approve Scholarships as stated in 2 (b)
Remove Unallowable Expenditures	Yes	
Strengthen Account Reconciliation Controls over Contract and Grant Accounts	Yes	

Conclusion

Based on the audit work performed, we conclude that while UT Dallas is in general compliance with contract and grant requirements, opportunities exist to enhance compliance, management oversight, information security, and the efficiency of operations.

We appreciate the courtesy and cooperation received from the management and staff in the Offices of Sponsored Research and Post Award Management as part of this audit.



Appendix: Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.