
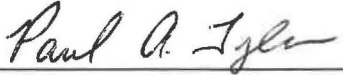


NRUF Restricted Research Expenditures
Project # 2019-42
October 31, 2019

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This engagement was conducted in accordance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and with Government Auditing Standards.

Executive Summary
NRUF Restricted Research Expenditures
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Objectives:

- Determine if policies and procedures are in place to ensure restricted research expenditures are appropriately classified.
- Provide the Assistant VP for Research Finance Operations a list of FY18 and FY19 to date expenditures that are classified as restricted research expenditures with selected account codes that may be unallowable for review and analysis.

Conclusion:

The Vice President for Research, Economic Development and Knowledge Enterprise will coordinate with the Provost and Senior Vice President for Academic Affairs, the Senior Vice President for Business Affairs, and the Vice President for Development and Alumni Relations to update policies and procedures to ensure restricted research expenditures are appropriately classified. Specifically, the Office of Sponsored Projects Administration will update the Handbook of Operating Procedure 9.32 Sponsored Projects Administration. The Office of Research Finance and Operations will coordinate the creation of procedures for the distribution of residential funds from Fixed Price Contracts and for the distribution of Texas Research Incentive Program matching funds. Additionally, the Office of Research Finance and Operations will create a monitoring tool to ensure restricted research expenditures are appropriately classified. New policies, procedures, and monitoring tools will be communicated to affected parties within each Vice President's areas.

Management's Action Plans:

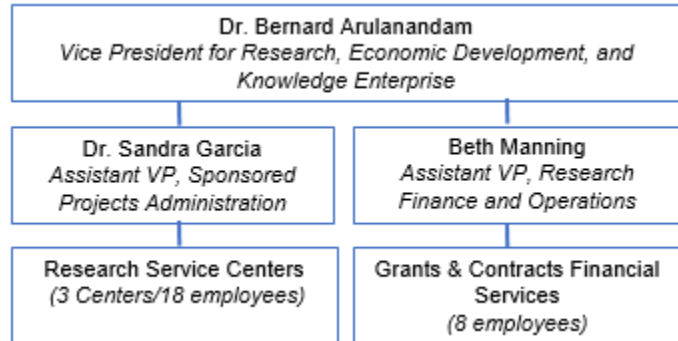
- Update [HOP 9.32 Sponsored Projects Administration](#) to reflect current applicable federal and state guidelines and current policies for classifying new contracts, gifts, and grants as restricted research (*high*).
- Create a monitoring tool to spot-check expenditures coded as restricted research expenditures with questionable account codes that may not meet THECB Standards and Accounting Methods definition of restricted research (*medium*).
- Create procedures for the distribution of residual funds from Fixed Price Contracts (*medium*).
- Create procedures for the distribution of Texas Research Incentive Program (TRIP) matching funds (*medium*).

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Background

The [Research Excellence Presidential Initiative](#) is a critical component of UTSA Strategic Plan – A Vision for UTSA. UTSA’s goal is to meet all [National Research University Fund \(NRUF\)](#) criteria by fiscal year 2020. UTSA’s goal is to achieve NRUF eligibility and receive subsequent funding in fiscal year 2023 after meeting NRUF criteria for a two-year period: 2020 and 2021.

The Vice President for Research, Economic Development, and Knowledge Enterprise is the Chair of the Research Excellence Presidential Initiative Task Force. The Assistant Vice President, Sponsored Project Administration and the Assistant Vice President, Research Finance and Operations are Ex Officio Members of the Task Force. Ensuring policies and procedures exist and are followed to ensure NRUF eligibility is the responsibility of this management team, along with the Research Service Centers and Grants and Contracts Financial Services.



The Office of the Vice President for Development and Alumni Relations, led by Karl Miller Lugo, is responsible for ensuring compliance with gifts and endowments restricted for research. Gifts and endowments restricted for research are also a component of NRUF restricted research expenditures.

NRUF was established by the Texas Legislature “to provide a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities.” Eligibility is based on an institution meeting benchmarks in the following categories. The institution:

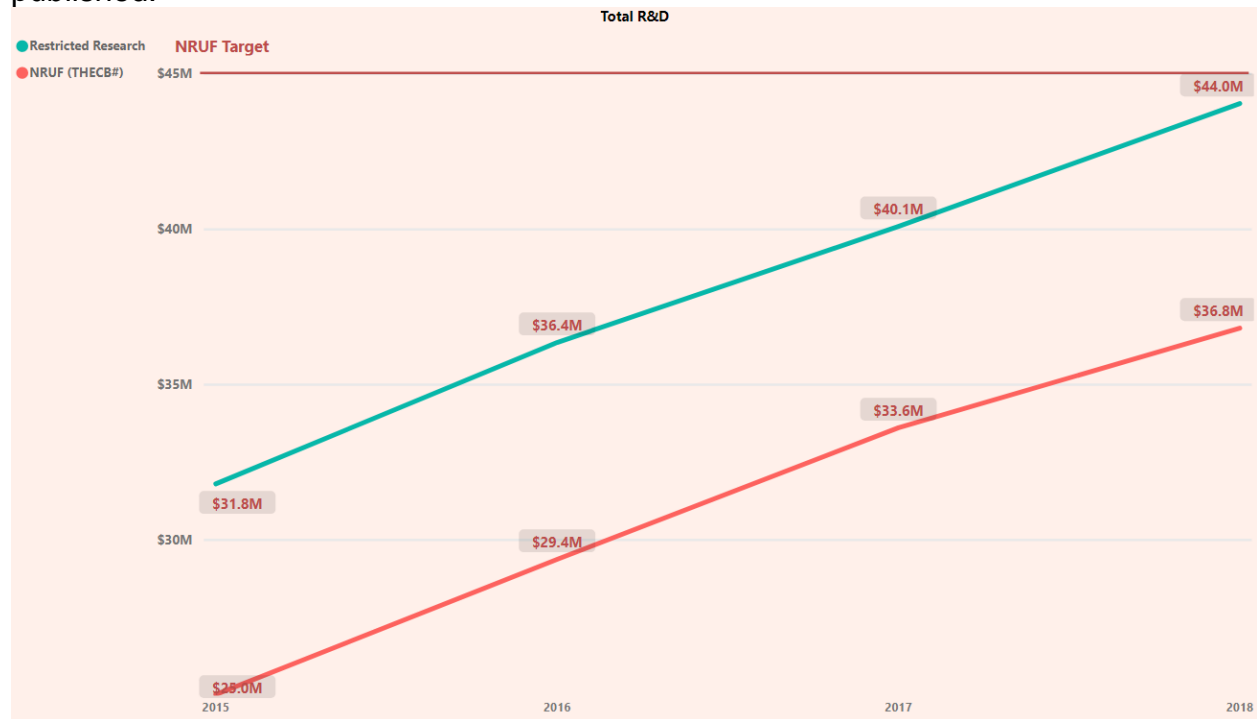
1. Must be designated as an emerging research university in the Coordinating Board’s accountability system;
2. Must have expenditures of at least \$45 million in restricted research; and
3. Must comply with four of the following:
 - \$400 million endowment annually,
 - 200 PhD degrees awarded annually,
 - freshmen class with high academic achievement,
 - membership in Association of Research Libraries, Phi Beta Kappa or equivalent national recognition,
 - high quality faculty, and
 - commitment to high quality graduate education.

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The [Texas Higher Education Coordinating Board \(THECB\) NRUF Eligibility report published in March 2019](#) states that UTSA is designated as an emerging research university and has met the two of the four optional criteria: freshman class with high academic achievement and memberships in national recognized associations.

UTSA's [Research Dashboard](#) summarizes the NRUF expenditure trends and targets for the past four years. As of the date of the report, FY19 NRUF expenditures are not published.



The Texas Higher Education Coordinating Board (THECB) established [Standards and Accounting Methods \(SAMs\)](#) to ensure consistency in the reporting of restricted research expenditures for NRUF eligibility across all Texas institutions of higher education. The SAMs definition of restricted research expenditures is more narrowly defined than restricted research expenditures that are listed in institutions' Annual Financial Reports (AFR). The AFR restricted research definition follows the broader guidelines of the National Association of College and University Business Officers (NACUBO).

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Audit Details

Objective 1: Determine if policies and procedures are in place to ensure restricted research expenditures are appropriately classified

HOP 9.32 | The purpose of [HOP 9.32 Sponsored Projects Administration](#) is to outline the requirements of various UTSA Offices when submitting and accepting research proposals with external agencies that obligate or commit UTSA. HOP 9.32 should include high-level policies for classifying new contracts, gifts, and grants and for re-classifying existing contracts, gifts, and grants as restricted research and should reference detailed procedures and guidance by the Vice President for Research, Economic Development and Knowledge Enterprise.

Observation #1:	HOP 9.32 Sponsored Projects Administration was last updated in January 2013 and includes references to offices that no longer exist at UTSA and to outdated federal guidance. Policies for classifying new contracts, gifts, and grants and for re-classifying existing contracts, gifts, and grants as restricted research are not clear.
Risk Level:	Policies without clarity of parties responsible for ensuring appropriate classification of research expenditures could lead to incorrect classification of NRUF expenditures. This is considered a HIGH risk to the University.
Management's Response:	Management agrees with Observation #1. HOP 9.32 will be revised and it is expected to be renumbered to HOP 10.12. The revisions will reflect current responsible parties and will comply with current applicable federal and state guidelines. In addition, clear guidance will be included to properly classify external funds as a grant, contract, cooperative agreement, gift or endowment and will describe the process for classifying funds as restricted research. It will include who is responsible for the classification and under what circumstances a classification should change.
Responsible Person:	Dr. Sandra Garcia, Assistant Vice President, Sponsored Projects Administration
Implementation Date:	➤ November 30, 2019 – Draft revision submitted to HOP Committee for review.

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	<ul style="list-style-type: none">➤ January 15, 2020 – Draft revision submitted to stakeholders for review.➤ February 28, 2020 – Draft revision submitted for legal review.➤ If changes are requested, additional time will be needed to send back to HOP Committee and legal for final review. Final implementation is scheduled for April 2020.
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**Monitoring for
Compliance with
THECB
Requirements**

Restricted research expenditures includes all expenditures coded as Function 200 Research and any Restricted/Gift Funds including:

- 5100 Federal Sponsored Programs,
- 5200 State Sponsored Programs,
- 5300 Local Sponsored Programs,
- 5400 Private Sponsored Programs,
- 5500 Gifts and Other, and
- 5600 Endowment Expenditures.

Function is defined as the functional expense classification and Funds define the sources and uses of the funds received.

THECB Standards and Accounting Methods (SAMs) states restricted research expenditures must be allowable, allocable, and reasonable and must not be indirect costs, capital construction, and costs associated with entertainment or any direct individual benefit. Examples of costs associated with entertainment or any direct individual benefit include costs for shows, sports events, meals, lodging, rentals, gratuities, or personal, non-research related travel.

Existing UTSA procedures for ensuring expenditures are appropriate include:

- All department managers are required to reconcile Monthly Financial Reports for the Cost Center and Projects they manage.
- Research Service Centers review e-Forms, travel, purchase requisitions, non PO payment vouchers, and cost transfer transactions charged to Function 200 and Fund 5100, 5200, 5300, and 5400 prior to processing for payment.

However, expenditures coded as Function 200 and Fund 5500 and 5600 (i.e. Gifts and Endowments) are not reviewed outside of the department prior to payment.

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To ensure only expenditures that meet restricted research expenditures requirements are coded as such, the Assistant Vice President, Research Finance Operations should determine if there is a need for spot-checking/monitoring expenditures coded as restricted research expenditures with a report of Function 200 and Restricted/Gift Funds with Account Codes that may not meet SAMs requirements.

A series of reports with applicable Fund, Function and Account Code data for FY18 and FY19 through June 2019 was provided to the Assistant Vice President, Research Finance Operations for analysis to determine if a more frequent review of expenditures would be beneficial.

Observation #2:	A monitoring tool to review restricted research expenditures coded with questionable account codes does not exist to ensure compliance with THECB Standards and Accounting Methods.
Risk Level:	Not reviewing expenditures at the time of payment increases the risk that restricted research funds will be used for unallowable expenditures. This is considered a MEDIUM risk to the University.
Management's Response:	<p>Management agrees with Observation #2. Monitoring tools will be developed to provide appropriate data for after-the-fact review of Function 200, Fund 5100 – 5600 expenditures to identify those that may not comply with the THECB SAMs definition for restricted research. Tools will be shared with Financial Leads across the institution to allow periodic monitoring to ensure compliance with the SAMs.</p> <p>The review of the data files provided by Internal Audit emphasized the need to develop specific queries in PeopleSoft or in Cognos that can be run periodically to combine data from multiple sources into a single document to decrease administrative burden and help facilitate the review process. The review highlighted the inconsistent usage of expense account codes, specifically 67106 Official Occasions. Expenses were predominantly food. However, this account code was also used for registration, supplies, and various fees. For FY18 and FY19 total expenses charged to 67106 Official Occasions on Function 200, Fund 5100 – 5600 exceeded \$250,000.</p>

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Responsible Person:	Beth Manning, Assistant Vice President, Research Finance Operations
Implementation Date:	<ul style="list-style-type: none"> ➤ October 31, 2019 – Draft monitoring tool developed in consultation with Business Information Services ➤ November 30, 2019 – Final monitoring tool available to Financial Leads with guidelines

Other Related Procedures | Additional procedures should exist to ensure a clear and consistent understanding of funds that can be utilized for restricted research. Examples include the distribution of residual funds from Fixed Priced Contracts and the distribution of Texas Research Incentive Program (TRIP) matching funds.

Residual Funds Distribution | Fixed Price Contracts in Research are entered into with a third party who pays a set price for agreed-upon work, regardless of the ultimate cost to complete the work. Fixed Price Contracts have a degree of risk as deliverables must be met even if costs incurred exceed the funded amount. However, if the funding exceeds the costs incurred, a residual balance exists. Data on UTSA’s Fixed Price Contracts in Research is as follows:

➤ FY2017	83 awards	\$3,525,418
➤ FY2018	74 awards	\$4,798,542
➤ FY2019	89 awards	\$9,123,257

The internal distribution of residual funds is not typically outlined in the Fixed Price Contract, but should be outlined by university policy or procedures to ensure clarity and consistency and to ensure expenditure of those funds align with UTSA’s strategic initiatives, including reaching NRUF goals.

Observation #3:	The policy and procedures for the distribution of residual funds from Fixed Price Contracts does not exist.
Risk Level:	Guidance without clarity of parties responsible for ensuring appropriate classification of research expenditures could lead to incorrect classification of NRUF expenditures. This is considered a MEDIUM risk to the University.
Management’s Response:	Management agrees with Observation #3. A policy is needed to outline when residual funds from Fixed Price

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	<p>Contracts are distributed, who is eligible to receive residual funding, and how the funding can be used.</p> <p>The current practice is to verify all sponsor billings have been paid and all award requirements have been met. The Grants and Contracts Financial Services unit verifies the budget is balanced and calculates the remaining direct and F&A portions. The direct portion is transferred to a cost center identified by the Principal Investigator (PI) and the F&A portion is transferred to a central account.</p> <p>Currently, there are inconsistencies in the cost centers used for the PI portion. Transfers are made to cost centers in both unrestricted and restricted fund groups. Funds transferred to a PI cost center are no longer subject to the terms and conditions of the original award. Therefore, the funds are no longer restricted and should be transferred to Designated fund 3100 only.</p> <p>Current practice allows residual funds to be transferred to a restricted Various Donors cost center in Fund 5500 or an F&A cost center in Fund 3100. All Various Donor cost centers need review to determine if they have residual funds from Fixed Price Contracts. If so, the remaining budget needs to be moved to Designated cost center in Fund 3100.</p> <p>Policies of peer institutions have been reviewed and common practice is to transfer residual balances that meet a minimum threshold and transfers exceeding 15% - 25% of the award should require explanation and approval.</p>
<p>Responsible Person:</p>	<p>Beth Manning, Assistant Vice President, Research Finance Operations</p>
<p>Implementation Date:</p>	<ul style="list-style-type: none"> ➤ September 30, 2019 – Draft Policy was made available for review ➤ November 30, 2019 – Policy finalized and published online ➤ November 30, 2019 – Complete Review of Fund 5500 Various Donor Cost Centers to determine if budgets contain residuals from Fixed Price Contracts ➤ December 31, 2019 – Corrections completed to move Fixed Price residual balances from restricted funds to designated

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TRIP Fund Distribution	<p><u>Texas Research Incentive Program (TRIP)</u>, established by <u>Texas Education Code (TEC) 62.121</u>, makes state matching funds available for private gifts directed to purposes that support the development of more national research universities in Texas. The eligible categories of gifts that support research are: “a gift or endowment for endowed chairs, professorships, facilities, equipment, program costs, graduate stipends or fellowships, or undergraduate research”.</p> <p>Eligible cash gifts are submitted to The Texas Higher Education Coordinating Board (THECB) for approval within 30 calendar days from the date of deposit. Approved gifts receive a TRIP match in accordance with the gift ranges and the availability of TRIP funds. When appropriated TRIP funds are exhausted, remaining eligible gifts are queued in the order in which they were submitted to THECB to await future TRIP allocations.</p> <p>To date UTSA has received \$20,898,282.71 in TRIP matching funds. Data on funded TRIP matches paid in recent years is as follows:</p> <ul style="list-style-type: none"> ➤ FY2017 \$ 973,500.00 ➤ FY2018 \$5,225,595.21 ➤ FY2019 \$1,116,622.50 <p>Data on pending payment from appropriated funds in the next biennium is as follows:</p> <ul style="list-style-type: none"> ➤ FY2020 \$1,225,000.00 ➤ FY2021 \$ 780,186.82 <p>The internal distribution of TRIP matching funds received from the State by each university is not explicitly outlined in TEC 62.121, but should be outlined by university policy or procedures to ensure clarity and consistency and to ensure expenditure of those funds align with UTSA’s strategic initiatives, including reaching NRUF goals.</p>
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Observation #4:	The policy and procedures for the distribution of Texas Research Incentive Program (TRIP) matching funds does not exist.
Risk Level:	Guidance without clarity of parties responsible for ensuring appropriate classification of research expenditures could lead to

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	incorrect classification of NRUF expenditures. This is considered a MEDIUM risk to the University.
Management's Response:	<p>The Office of Development and Alumni Relations does have an informal policy for the usage of TRIP matching funds. Usage is at the discretion of the President for research related activities, except when the gift agreement (or donor verbally) stipulates the gift match be expended for the same purpose of the gift. Most of the TRIP matching funds have been used to create endowed academic positions which are then assigned to various colleges.</p> <p>For transparency, a formal written policy will be developed and published online that describes what is eligible for TRIP matching, how TRIP funds are acquired, how TRIP funds are distributed, for what TRIP funds can be used, and under what conditions TRIP funds could be returned. The website could include secured content available to UTSA staff only. A process flowchart will be considered to provide a visual quick reference in addition to a Responsibility Matrix.</p>
Responsible Person:	<p>Beth Manning, Assistant Vice President, Research Finance Operations</p> <p>Rebecca Anderson, Assistant Vice President for Operations & Talent Management</p>
Implementation Date:	<ul style="list-style-type: none"> ➤ August 31, 2019 – Working group was identified. ➤ November 30, 2019 – Draft policy will be developed. ➤ December 31, 2019 – Final policy, process flowchart and Responsibility Matrix completed. ➤ January 31, 2020 – Policy, process flowchart, and Responsibility Matrix posted online.