20-105 Grant and Contract Financial Controls

EXECUTIVE SUMMARY

We have completed our audit of the Grant and Contract Financial Controls. This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*

Background

Sponsored Projects Administration (SPA) serves as the coordinating office for externally funded research and sponsored projects at UTHealth. SPA is responsible for financial and administrative oversight and compliance of sponsored projects across the university. This includes all grants, contracts, and other agreements from government agencies, private industry, non-profit foundations and other research institutions. SPA provides support to UTHealth faculty, staff, and students in the acquisition and administration of Sponsored Projects.

Audit Objectives

Our objective was to determine whether the controls over federal grants and contracts are adequate and functioning as intended. Specifically, we wanted to determine if:

- Grant funds were spent in accordance with federal regulations and the funding agreement
- Effort reports were submitted on time, and were accurate, allowable, and properly allocated
- Cost transfer memos were appropriate based on federal requirements and institutional policies

Scope

- Federal grants with project end dates between July 1, 2019 and January 1, 2021

Conclusion

Overall, controls around the expenditure of federal grant awards are adequate and functioning as intended. We noted the following opportunities for improvement:

#	Audit Observation Summary	Risk	Risk Rating
1	Inconsistencies in effort reports were noted, which included: • Certified effort less than paid effort • Certified effort less than committed effort by 25% or more which requires a formal notice to the NIH • Late certification	UTHealth may not comply with federal regulations resulting in unsupported costs applied to grants.	**High**

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#	Audit Observation Summary	Risk	Risk Rating
2	Minor occurrences of accelerated or delayed expenditures was indicated in two of the twelve projects reviewed.	UTHealth may be in violation of federal grant spending guidelines, and may be obligated to return funds for expenses deemed unallowable.	**Medium**

AUDIT OBSERVATIONS & MANAGEMENT RESPONSES

#1 – Certified Effort Reports

Cause

UTHealth's HOOP Policy 93 Effort Certification Reports is not consistently followed by university departments and principal investigators (PIs). In addition, an internal control program to ensure effort reports reflect actual time and effort has not been fully implemented.

Risk

UTHealth may not comply with federal regulations resulting in costs applied to grants that are not supported by effort reports.

Condition

We noted the following inconsistencies in some effort reports:
- Certified effort less than paid effort
- Certified effort less than committed effort by 25% or more which requires a formal notice to the NIH for key personnel
- Reports submitted after the due date

Management informed us a work group consisting of six department representatives from four of the schools and SPA personnel has been formed to discuss opportunities for improvement.

Criteria

The *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), 2 CFR Part 200, Section 415(a) requires a certification be made that the "expenditures are proper and in accordance with the terms and conditions of the Federal award and approved project budgets", and signed by an official who is legally authorized (principal investigator, responsible official or employee). Section 430(h)(8)(i) further requires salary and wage charges to federal awards be based on records that accurately reflect the work performed, and that the records be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Recommendation

We recommend SPA management:
- Work with each of the schools to ensure processes are developed and implemented to ensure certified effort reports are accurate and in accordance with Uniform Guidance and institutional policy, and a system of internal controls is established to identify errors.
- Assess the need to review prior certification periods to determine whether any federal grants were overbilled.

Rating

High

UT System Priority Findings Matrix Mapping (see Appendix A)

Compliance: Medium probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant, prolonged adverse impact on the institution's reputation.

Management Response

The following actions are currently planned or are underway:

1) SPA established an Effort Reporting Task Force that meets bi-weekly) beginning in April, 2021) to update UTHealth's effort reporting policies, procedures and business practices. The group includes six effort coordinators from four of the schools along with six SPA staff members. The objective of the task force is to identify and implement 1) the most appropriate effort reporting methodology for UTHealth, 2) a new, mandatory, training program for faculty, effort coordinators, and other departmental grant and contract staff that impact effort, 3) salary cost transfer and over-the-cap issues and processes, 4) reporting needs, 5) updated HOOP 93 Effort reporting policy and procedures and, 5) system functionality improvements including a system upgrade.

2) SPA will develop a mandatory training course for onboarding faculty and effort coordinators with a semi-annual refresher course that will be available just prior to each effort reporting period. The training will be split into two components. The first will describe the federally mandated rules and guidance around effort reporting and will include FAQs that clarifies the process and emphasizes the importance of faculty and key personnel's role in effort certification. The second component will be effort system training. In addition, to training courses and tools faculty, SPA will develop a communication and education plan for effort coordinators before and during each effort reporting period.

3) The Effort Reporting Task Force has determined that a significant system upgrade is required. UTHealth is required, per 2 CFR 200, to maintain a system that documents and supports individual distribution of activities and associated payroll charges to sponsored projects. The eCRT system will be upgraded to meet business and compliance needs such as NIH Salary cap flags, management reports, and other needed functionality. The Task Force (with a few changes due to availability) will become the system upgrade team. The goal is to complete the upgrade by January 15, 2022 (for the July – Dec 2021 effort reporting period.)

4) SPA, with the Effort Reporting Task Force and as part of the system upgrade, will determine an efficient way to maintain committed effort changes within the UTHealth START system so that these changes can be transferred to and included in the Effort Reporting System.

5) Review Certified Effort less than Salary Charged reports and issue corrections as needed. AVP of SPA to meet with CFO and Chief Academic Officer to determine period of time to review and correct (e.g. July-Dec 2020 effort period) and method of correction (e.g. reopen reports and recertify, removing of salary charged in excess of effort certified) Once determinations are made, process the corrections.

Responsible Party

Michael Tramonte, Senior Vice President, Finance & Business Services and Chief Financial Officer
Dr. Michael Blackburn, Executive Vice President, Chief Academic Officer and Interim Dean of Research, McGovern Medical School

Implementation Date

December 31, 2021

#2 – Accelerated Spending

Cause

Project oversight and management including budget review and planning is not consistently being performed by project principal investigators and department grant support staff.

Risk

UTHealth may be in violation of federal grant spending guidelines. In addition, UTHealth may be obligated to return grant funds for expenses deemed late or unallowable.

Condition

For two of twelve projects in our sample, we identified approximately $15,000 in non-salary expenditures that occurred at the end of the project. Of this amount, approximately $9,000 was associated with a project where the PI left the institution which resulted in an accelerated end-date. Total non-salary expenditures for these two projects in the final year was approximately $260,000.

Criteria

The *National Institutes of Health (NIH) Grants Policy Statement*, section 7.5 titled *Cost Transfers, Overruns, and Accelerated and Delayed Expenditures* states, "NIH expects the rate and types of expenditures to be consistent with the approved project and budget and may question or restrict expenditures that appear inconsistent with these expectations." The policy further states "The GMO may review recipient cash drawdowns to determine whether they indicate any pattern of accelerated or delayed expenditures."

Recommendation

We recommend SPA management work with each of the schools to establish and implement formal procedures for performing project oversight including budget review and reconciliations of project funds.

Rating

Medium

UT System Priority Findings Matrix Mapping (see Appendix A)

Compliance: Low probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant adverse impact on the institution's reputation.

Management Response

SPA sends "Project Expiration" notices to all PIs and department grant administrators 45 days prior to the grant end date. The following statement is included with each notice:

"The federal government has established policies against accelerated and late grant spending. Purchases solely to spend remaining grant funds are not allowed. Departments are cautioned to carefully review purchase requisitions within 45 days of the grant end date and to disallow purchases as appropriate."

The following actions are planned or are underway:

1. Post Award Finance will develop additional reporting capabilities to readily identify expenditures occurring within the last 60 days of a project.

2. Post Award Finance will strengthen its Financial Status Reporting procedure to include review and remove expenses that appear to be accelerated or delayed spending.

3. Partner with Procurement to discuss adding project end date in Coupa for expense reviewers/approvers.
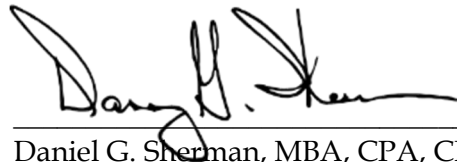
Responsible Party
Michael Tramonte, Senior Vice President, Finance & Business Services and Chief Financial Officer

Implementation Date
August 31, 2021

We would like to thank the Sponsored Projects Administration staff and management who assisted us during our review.

Daniel G. Sherman, MBA, CPA, CIA
Associate Vice President & Chief Audit Officer

NUMBER OF PRIORITY FINDINGS REPORTED TO UT SYSTEM
None

MAPPING TO AUDITING & ADVISORY SERVICES FY 2020/2021 RISK ASSESSMENT

Reference	Risk	Risk Rating
FIN 2	Is there adequate oversight of grant and contract expenditures in each of the schools.	Medium
FIN 86	Controls over grant expenditures are not sufficient to ensure compliance with federal requirements.	High
FIN 108	Accelerated spending of grant funds in last 90 days of grant.	High
FIN 125	SoM department may not be operating efficiently and effectively (e.g. management of research grants, high volume of cost transfers, deficits, overspending/underspending on grants).	High
FIN 147	Decentralized nature of research oversight and lack of training in how to manage grant and contract funding may create a risk of improper expenditures.	High

DATA ANALYTICS UTILIZED
To identify effort reports submitted after the deadline for project personnel, compared a list of personnel to a report of late effort reports across the institution.

AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM
AVP/CAO – Daniel G. Sherman, MBA, CPA, CIA
Audit Manager – Nat Gruesen, MBA, CIA, CISA, CFE
Auditor Assigned – Casandra Wiley

END OF FIELDWORK DATE
May 20, 2021

ISSUE DATE
July 8, 2021

REPORT DISTRIBUTION
Audit Committee
Mike Tramonte
Kathy Kreidler
Shannon Gary
Ana Touchstone

APPENDIX A
UT SYSTEM PRIORITY FINDINGS MATRIX

The University of Texas System
Systemwide Internal Audit
Priority Findings Matrix

Priority Findings Matrix	ACRMC Reporting Priority Finding	Institutional Reporting		
		HIGH	**MEDIUM**	**LOW**
QUALITATIVE RISK FACTORS – Potential Probability and Consequences in various risk areas with respect to impact on institution as a whole				
Reputation: Damaged to the image of the institution and/or UT System	High probability that donors and other funding sources will withdraw or withhold funding	High probability that individuals will not choose to participate as students, faculty, or other stakeholders	Medium probability that individual stakeholders will not choose to participate in the institution	Low probability that individual stakeholders will be affected
	National media exposure	Adverse regional media exposure	Adverse local media exposure	No media exposure
Information Security: Integrity, confidentiality and availability of information	High probability of regulatory action or loss of reputation or affect on availability of budget in connection with incorrect external financial reporting	Medium probability of some external financial/operating data being incorrect	Low probability of external financial or operating data being incorrect	N/A
	High probability of data breach	Medium probability of data breach	Low probability of data breach	Opportunity to enhance existing acceptable system
	N/A	High probability of key internal financial/operating data being incorrect	Medium probability of internal data being incorrect	Low probability of internal information being incorrect
Compliance: Compliance with external legal or regulatory requirements	High probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant, prolonged adverse impact on institution's	Medium probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant, prolonged adverse impact on	Low probability of loss of funding, prosecution, significant financial penalty, negative legal action and/or significant adverse impact on institution's reputation	N/A
	N/A	High probability of increased monitoring or negative perception by the regulators	Medium probability of increased monitoring or negative perception by the regulators	Low probability of increased monitoring or negative perception by the regulators
Accomplishment of Management's Objectives: Goals being met, projects being successful	High probability that a major operating project or initiative (i.e. a new degree program or information system) will be materially late, over budget or technically deficient	Medium probability that an operating project will miss time, cost or technical goals	Low probability that an operating project will not achieve some of its goals	Process improvement opportunity to assist in achieving a goal
	N/A	High probability that an internal activity or project will not achieve its goals	Medium probability that an internal activity or project will not achieve some of its goals	Low probability that an internal activity or project will not achieve some of its goals
Effectiveness and Efficiency: Objectives at risk and/or resources being wasted	High probability of a mission critical activity failing with major regulatory, reporting consequences	Medium probability of a mission critical activity failing with major regulatory, reporting consequences	Low probability of a mission critical activity failing with major regulatory, reporting consequences	N/A
	N/A	High probability that some objectives are not met	Medium probability of some objectives not being met	Low probability that some objectives may not be met
	N/A	High probability of significant cost over runs	Medium probability of significant cost over-runs	Low probability of significant cost over runs
	N/A	High probability of a significant waste of resources	Medium probability of a significant waste of resources	Low probability of a significant waste of resources
Capital Impact: Loss or impairment of use of assets	High probability of significant financial loss of use of assets with reputation consequences	Medium potential for significant financial loss of use of assets with reputation side effects	Low probability for significant financial loss of use of assets with reputation side effects	Probability of immaterial and/or small financial losses of use of assets with minimal reputation
	Loss of control over significant assets	Loss of control over other assets	Minor control deficiency over assets	Opportunity to improve existing controls over assets
Life Safety	High probability for loss of life	Medium probability for loss of life	Low probability for loss of life	N/A
	N/A	High probability for personal injury	Medium probability for personal injury	Low probability for personal injury
	High probability of material release of toxics/infectious disease	Medium probability for: release of toxics/infectious disease	Low probability for release of toxics/infectious disease	N/A
	High probability of Substantial incident of toxics/infectious disease effects	Medium probability of toxic/infectious disease effects	Low probability of toxic/infectious disease effects	N/A

The University of Texas System
Systemwide Internal Audit
Priority Findings Matrix

Priority Findings Matrix	ACRMC Reporting	Institutional Reporting		
	Priority Finding	**HIGH**	**MEDIUM**	**LOW**
OPERATIONAL CONTROL RISK FACTORS - Vulnerabilities in operational controls with consequences of not achieving objectives (If strategy or important operational objectives are directly impacted):				
Operational Oversight/Alignment	Operational oversight, alignment or management issue has the capacity to derail or significantly impact an Institutional or UT System strategic initiative	Operational oversight, alignment or management issue has the capacity to impair progress on an Institutional strategic initiative	N/A	N/A
Management Oversight	Management oversight control of critical organizational objectives is absent	Management oversight control of critical organizational objectives is ad hoc and/or not formalized	Management oversight control of critical organizational objectives is weak in important areas	Management oversight control of critical objectives can be improved
Management Alignment	Management's alignment of people, process and technology to efficiently accomplish organizational objectives is lacking risk awareness creating critical inefficiency and risk exposure	Management's alignment of people, process and technology to efficiently accomplish organizational objectives is not effectively creating awareness of inefficiencies and potentially significant risks, potentially impacting objective achievement	Key organizational components (trained people, defined process, or appropriate technology) are exposed to moderate risks yet to be addressed, potentially impacting objective achievement	Key organizational components (trained people, defined process, or appropriate technology) are exposed to low risks yet to be addressed, potentially impacting objective achievement
Designed Controls	Designed controls within objective critical operations are inadequate or are non-functional impacting objective achievement	Designed controls within important operations are not functional on a consistent day-to-day basis, with no compensating controls, potentially impacting objective achievement	Designed controls within important processes and transactions are inconsistent in their effectiveness, with no compensating controls, potentially impacting objective achievement	Breakdown of designed controls on a frequent and regular basis with compensating controls, but little impact on the achievement of objectives
	N/A	Control or process improvement opportunities that will provide a measurable economic result (significant to the institution)	Control or process improvement opportunities that will correct a reputational or compliance deficiency	N/A
QUANTITATIVE RISK FACTORS – Estimated Financial Consequences with respect to impact on the institution as a whole (quantitative factors % will vary by institution, so may be agreed upon by the institutional Chief Audit Executive & Chief Business Officer)				
Payments (including fines and legal costs)	>5% of outlays/expenditures	>2% to 5% of outlays/expenditures	1% to 2% of outlays/expenditures	<1% of outlays/expenditures
Lost Revenues (actual and/or opportunities)	>5% of Revenue	>2% to 5% of Revenue	1% to 2% of Revenue	<1% of Revenue

Last Updated: June 2014