March 27, 2013

MEMORANDUM

TO: Pam Puig
   Laboratory Department Administrator

FROM: Sherri Magnus
      Vice President and Chief Audit Officer

SUBJECT: Grants and Contracts Administration – Department of Pathology
         2013-302

We have completed our review of the controls surrounding the administration of federal grants in the Department of Pathology. The scope of the review included activities and transactions recorded during Fiscal Year 2012. We interviewed key personnel, including faculty and research staff. We reviewed documentation for expenditures posted to the research projects as well as any related reports. Based on the test work performed, we noted instances of noncompliance and identified improvement opportunities in the following areas:

Observation 1:
Effort Reporting
According to federal regulations, institutional and UT System policy, effort reported and certified must reflect a reasonable estimate of time spent on a project and not based solely on payroll distribution. Also, institutional policy requires effort cards to be certified and processed quarterly and no later than 30 days after notification from Grants and Contracts. During our review we noted the following:

- In several instances it appeared that certified effort reflected payroll percentages rather than actual effort spent on the project.
- The Department of Pathology Research certified and processed only 61% (76/124) of the effort cards for Quarter IV, 2012 by the required due date of November 13, 2012. According to management, in July 2012, the institution placed a hold on processing any payroll actions for the 4th quarter which may have impacted the timeliness of the effort processing.
- Support staff in research labs may perform tests and procedures on multiple projects during a quarter; however, there is no allocation methodology in place to ensure their effort is allocated appropriately.

Failure to comply with mandated regulations and guidelines could result in disallowed costs charged to a federal project. It could also result in penalties and fines levied against the institution.
Recommendation:
Management should take steps to ensure that effort cards reflect actual effort expended on the project and certifications are completed in accordance with UTS163 and institutional policy ACA0016. Management should also develop a method to allocate effort appropriately for support staff in labs where research is conducted for multiple Principal Investigators (PIs) or multiple projects.

Management Action Plan:
Responsible EVP: Thomas Burke, M.D.
Owner: Pam Puig
Final Approver: Wenonah Ecung
Contributor: Kathy Alwell
Due Date: August 31, 2013

We concur with the observation noted above. To ensure compliance with Institution and UT System requirements, we will request additional training for faculty and require all new hires to attend classes on effort certification and reporting.

Management will continue quarterly reviews of effort cards and meeting with the PI to ensure the accuracy of the effort reported and certified. Once all personnel actions (JDUFs) are accurately reflected in PeopleSoft, management will coordinate with the PI to determine the actual effort worked on the project. Adjustments to the effort card and/or payroll will be processed and certified accordingly.

Management will develop and implement a process to allocate effort in labs where research is conducted for multiple PI's or projects. Training will be provided to new hires and existing personnel as needed to ensure understanding of allocation methodology.

Observation 2:
Questionable Expenditures
Federal regulation (OASC3) requires that costs paid by grant funds meet certain basic criteria. The costs must be reasonable, allocable, accorded consistent treatment under generally accepted accounting principles (GAAP), and conform to any limitations or exclusions set forth under OASC3 or the individual grant agreement. During our review of multiple costs centers, we noted instances where expenditures paid with grant funds did not appear to comply with federal regulations.

- $8,130 for food/water and office supplies
- $6,600 for travel related expenses associated with a job applicant
- $12 paid for state taxes on lodging

We also reviewed several invoices for lab supplies where the costs were not consistently allocated to the specific project for which the supplies were used. According to lab personnel, several research projects are housed in one lab, and therefore, lab supplies may be used by all.

While these costs represented less than 1% of the total department's federal expenditures, failure to comply with federal regulations could result in repayment of funds to the sponsor.

Recommendation:
Management should research the questioned costs noted above to determine if the expenditures were allowable, or to initiate corrective action to transfer the costs to a department company base account.
In addition, management should develop and implement a consistent and defendable process for allocating lab supplies between projects.

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We concur with the observation noted above.

Management will educate personnel on appropriate expenses per OASC3 guidelines for Federal projects and per the contractual terms and conditions of the individual sponsors. Educational emphasis will be placed on those with signature authority. Proper allocation of expenses amongst projects will be discussed with PIs and research lab personnel responsible for ordering supplies. For the questioned costs noted above, management has researched and made necessary correction to reallocate the expense correctly or has provided documentation of allowance of expense.

Observation 3:
Subrecipient Monitoring
Institutional Policy ACA0004 requires the monitoring of activities of subrecipients. Monitoring should include retention of all technical and administrative reports to ensure projects are completed and funds are used for authorized purposes in accordance with applicable laws, regulations and provisions set forth in the grant or contractual agreement. The policy also states that the PI will review and approve every invoice prior to payment and in doing so, will certify that the subrecipient has performed in accordance with the contractual agreement and applicable laws.

During our review, we noted that technical reports were not always readily accessible as required by institutional policy. In some instances, the PI indicated that subrecipients were not required to submit technical reports if research was not conducted. Instead, the invoice was accepted as evidence that work had been completed. This practice is not in accordance with the contractual agreements.

We examined 35 subrecipient invoices submitted in FY12 to determine whether they were appropriately reviewed. Two of the thirty-five (6%) invoices were not signed and dated by the PI to provide assurance they were reviewed prior to payment.

Recommendations:
For subrecipients not conducting research, but submitting invoices that serve as technical report data, management should coordinate with the appropriate parties to revise the contract language to reflect the contractual arrangement. Also, management should develop a control process to ensure that PIs review and approve each subrecipient’s invoice prior to payment.

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We concur with the observation noted above.

A copy of the institutional policy ACA0004 will be sent to PI's with subrecipient contracts. Management will ensure that contractual language will be revised to reflect the agreement terms and provisions between PI and subrecipients.

Observation 4:
Status of Company Center (SOCC) Review and Confirmation
According to institutional policy ADM1100, the company center steward is ultimately responsible for ensuring that all SOCC reports are reviewed and confirmed monthly to verify that expenditures, revenue, and transfer items are recorded correctly in the general ledger. Based on review of documentation and interviews with individuals responsible for monthly reconciliations, we determined that Pathology grant accounts are not consistently reviewed and confirmed timely. This increases the risk of undetected errors.

Recommendation:
Management should ensure SOCC review and confirmations are performed monthly in accordance with Policy ADM1100 to ensure expenditures are posted timely and are appropriately supported, funded and approved.

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We concur with the observation noted above.

Management will require training of all personnel responsible for performing the monthly reconciliation and review of the department’s accounts. Control processes such as periodic reviews will be developed and implemented to ensure completeness, accuracy and timeliness of process.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The courtesy and cooperation extended by the personnel in Pathology, Grants and Contracts, and Sponsored Programs were sincerely appreciated.

SM/rem/adl

cc: Dr. Stanley Hamilton
    Dr. Kenneth Aldape
    Wenonah Ecung
    Joyceann Musel Winn