Contracts and Grants Billing Audit

Audit Report # 16-12
September 15, 2016

The University of Texas at El Paso
Institutional Audit Office

"Committed to Service, Independence and Quality"
September 15, 2016

Dr. Diana Natalicio
President, The University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited-scope audit of Contract and Grants Accounting. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals and objectives are achieved.

We appreciate the cooperation and assistance provided by Contracts and Grants staff during our audit.

Sincerely,

Lori Wertz
Chief Audit Executive
Report Distribution:

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Dr. Roberto Osegueda, Vice President for Research
Ms. Guadalupe Gomez, Director, Contracts and Grants Accounting
Ms. Sandra Vasquez, Assistant Vice President for Equal Opportunity (EO) and Compliance

University of Texas System (UT System):
System Audit Office

External:
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Legislative Budget Board
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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of the Office of Contracts and Grants Accounting (C&G). The audit scope was limited to projects active during the period from September 2014 through December 2015.

During the audit we noted the following:

- C&G has encountered limitations due to PeopleSoft system issues.

- Unexpended project funds were handled appropriately. No exceptions were found.

- Set up discrepancies existed between information provided in the Notice of Award and information entered in PeopleSoft.

- 17 of 190 vouchers processed more than 90 days after the end of the project were tested. Eight vouchers were corrections due to PeopleSoft conversion issues and two were not paid.

- 26 of 653 projects with overdrafts were tested. Four were resolved within the course of the audit. The additional 22 were awaiting action from different departments.

- Total expenses for four out of five projects had adjustments to the total expenses after the final invoice was submitted to the sponsor agency. Adjustments made were due to a system configuration issue in PeopleSoft that has been resolved.

- The closeout of some projects in PeopleSoft was not performed in a timely manner. The system closeout process has not been done consistently due to limitations encountered in PeopleSoft. After a project is closed, no adjustments can be made.
BACKGROUND

Contracts and grants are created when the funding agency and the University establish a contractual relationship resulting in an obligation or requirement that specific products, activities, services, or information be provided to the funding agency. Key to the success of contract and grant management are the Offices of Research and Sponsored Projects (ORSP) and Contracts and Grants Accounting (C&G). The C&G office is responsible for monitoring financial activity to ensure compliance with applicable federal, state, and awarding agency guidelines. Other duties include:

- Processing transfers of funds/budget adjustments,
- Processing billing to award agencies,
- Preparation of various fiscal reports to awarding agencies, and
- Closing out accounts.

Funds can be received in different payment methods. The three main types of contracts are:

1. **Cost reimbursable** - payment is received as invoices are submitted for expenses incurred,
2. **Fixed** - payment received after milestones are met, or deliverables accepted, and
3. **Prepaid** - payment received upfront.

Grant funds represent 34% of University revenues. Annual research spending at The University of Texas at El Paso (UTEP) was more than $90 million in Fiscal Year 2015. Appropriate management of contracts and grants is an essential function for the success and achievement of UTEP’s strategic plan.

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**UTEP FY 15 REVENUE SOURCES**

- **Grants**: 34%
- **Program Service Revenue**: 51%
- **Other**: 10%
- **Gifts**: 1%
- **Investment Income**: 4%
- **Other**: 10%

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AUDIT OBJECTIVES

The objective of this audit was to determine the effectiveness of C&G internal controls and processes in regards to the areas of billing, reporting and closeout.

SCOPE AND METHODOLOGY

The audit scope was limited to a review of projects active during the period of September 1, 2014 to December 31, 2015.

Audit methodology included the use of process mapping, review of applicable laws and regulations, data analytics, interviewing key personnel, and reviewing supporting documentation.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

To accomplish our audit objectives, we performed the following:

- gained an understanding of contracts and grants processes and operations,
- reviewed data recorded in PeopleSoft,
- reviewed expenses for compliance with laws, regulations and grant policies,
- reviewed the process for monitoring overdrawn grant accounts,
- reviewed billings to determine accuracy and validity,
- reviewed financial reports to verify whether they were accurate and submitted timely, and
- determined whether the grant closeout was conducted in the system.
RANKING CRITERIA

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for the rankings are as follows:

**Priority** - 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.

**High** – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

**Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

**Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.
AUDIT RESULTS

A. Award and Project Set-up in PeopleSoft

In PeopleSoft, the creation of a new award and project is a manual process that requires recording numerous amounts of data into the system. The steps include the following:

1. Create and submit proposal
2. Generate award
3. Complete award:
   • Profile
   • Project
   • Activity
   • Budget
4. Create contract (cost reimbursable, prepaid or fixed)
5. Review and update Commitment Control information
6. Create speed-type

A1. Selected Input Fields

With the use of reports from PeopleSoft and data analytics tools, we selected 23 of 458 projects with discrepancies between award dates, project dates and dates in the PeopleSoft Commitment Control (KK) screen. Even though the system checks for additional fields to process expenses, such as project status and budget, having incorrect dates in KK increases the risk of expenses being processed outside the project period.

From the sample selected, projects included at least one of the following exceptions:

- 10 KK end dates more than 90 days after project end dates
- 8 KK end dates were before the project end dates
- 7 KK beginning dates were after project beginning dates
- 2 project beginning dates were before award beginning date

The reason for discrepancies include no cost extension or additional allocations and dates not updated in KK, keying errors and/or projects needing to remain open to process adjustments.

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1 Alphanumeric code that auto populates the accounting chartfields, including business unit, cost center/project, function and fund.
Additionally, we selected 14 projects from 10 different proposals/awards and 6 different sponsors to test the appropriate set up of certain fields in PeopleSoft. The fields are based on the Notice of Award (NOA) information that will indirectly impact billing. The fields tested were the following:

- Award beginning and end dates
- Budget beginning and end dates
- Total budget amount
- Sponsor agency
- Indirect Cost rate and base
- Cost share (if applicable)
- Award type

One exception was found where cost share was overlooked during the set up process. Cost share expenses will be calculated manually.

**Recommendation:**

*C&G should develop a training program and/or manual for new employees to understand the steps to take when setting up or making changes to projects. Additionally, C&G should have a monitoring process to review important fields in the project set up that could increase the risk of inappropriate expenses being charged.*

**Level:** This finding is considered **Medium** due to the creation of a support group that monitors the accuracy of PeopleSoft records.

**Management Response:**

*Process Scripts, training and checklists related to setup of projects were provided to staff and are available in the C&G folder to access as needed. A desk manual is pending to be created.*

*Our office is currently working on various validation processes, one of which is a bi-weekly review of project dates (award vs. project vs. KK).*

*Additionally, with the assistance of Dr. Osegueda and Mario Caire, a New Setup-Notice is being designed that will automatically generate an email to the ORSP Research Administrators (RA) to review the Project Setup and ensure that C&G Office accurately captured all necessary fields in PeopleSoft, as listed on the Notice of Award.*
B. Process of Expenses

According to CFR §200.302 'Financial management', the state's and the other nonfederal entity's financial management systems, including records documenting, must be sufficient to permit the preparation of required reports and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

B1. Expenses Processed During the Period of Performance

With assistance of PeopleSoft reports, we identified 190 vouchers processed more than 90 days after the end of the project. We selected a sample of 17 vouchers and requested further explanation. The following explanations were provided by C&G staff:

- 6 vouchers were incorrectly processed due to system or input errors (3 have been transferred to an active project)
- 1 voucher was created within project period, but posted more than 90 days after project end date
- 8 vouchers were processed as part of PeopleSoft system issue corrections
- 2 vouchers were processed, but not paid

As stated in CFR §200.309 Period of Performance, A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance. Also, as part of the closeout process, per CFR §200.343 Closeout, non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all reports as required by the terms and conditions of the Federal award; therefore final expenses and adjustments must have been processed.
Recommendation:

Controls should be in place to prevent activity after the project has ended. Implement a process to identify activity on projects after the end date and address them in a timely manner.

Level: This finding is considered Medium due to the financial impact of unreimbursed expenses.

Management Response:

ORSP and C&G offices are currently working on several projects that will assist with timely review of project expenses, automated notifications of award and project period end and review of fields in KK that control spending.

PIC 2 Tool has been created to assist the Project PI and Administrator with monthly reconciliation of project activity. A weekly automated email is sent to Project PI and Administrator when activity is posted to the project. This will assist with identifying inconsistencies and process corrections in a timely manner. Additionally this will assist in ensuring that the required expenses are posted to the project as incurred and avoid expenses due to adjustments or transfers at the end of the project.

PIC 2 Tool has also been updated to generate automated email reminders to the Project PI, Administrator, Research Administrators (RAs) and C&G Accountant at 120, 90, 60 and 30 days prior to end of the Award/Project. A series of action items for RAs and C&G Accountants has been developed to ensure proper steps are followed to aid the PI in successfully spending available funds and close out of award/project in a timely manner.

KK Fields (date, status and control) are included in the bi-weekly review mentioned on the Management Response for item A above. Ensuring that all fields are reflected correctly in the system will prevent spending after close-out period. However, it is important to note that our office is forced to override all payroll and Banner transactions regardless of the available budget or award/project period. In order to avoid override of these transactions, budget checking process needs to be configured in PS at creation of these transactions and not at the end of the process when the transactions have already been processed and pending journal approval in GL module.

Responsible Party:

Guadalupe Gomez, C&G Director
Implementation Date:

All tools and validation reviews listed previously are already in place. The only pending item is budget checking of Payroll and Banner expenses at the time the transactions are created, but that requires PeopleSoft configuration. UT Share has been informed of the issue, but as yet they have not offered a solution.

B2. Overdrafts

With the use of reports from PeopleSoft and data analytics tools, we identified 653 projects with overdrafts by budget account. 26 projects were selected with overdrafts from $140 - $26,000, totaling $134,555; not including salaries and wages related transactions.

C&G provided the status of the overdrafts. Four of the 26 overdrafts were resolved during the course of testing. Corrections consist of transfer of expenses, transfer of budget, and/or write-offs. The remaining 22 overdrafts were awaiting action from different departments, including Budget Office, the Principal Investigator (PI) and C&G.

PeopleSoft allows salary related transactions and transactions processed through BANNER Student Information System to go through without the automatic budget verification. If the transactions result in an overdraft, they need to later be addressed by C&G staff. However, due to PeopleSoft conversion issues, numerous projects resulted in overdrafts in different budget accounts.

The C&G support group was created and has overtaken the task of clearing all overdraft projects. The overdraft amount has been reduced considerably; however, there are still projects that need correction.

Per federal regulations, the University should report any deviations from approved budget and should process all expenses and adjustments no later than 90 days after the end of the project. The main risks created by overdraft projects include the following:

- Noncompliance with federal regulations
- Noncompliance with sponsor’s contract and requirements
- Funds not being able to be recovered
Recommendation:

- Utilize PeopleSoft controls to prevent processing of expenses when the budget is not available.
- Identify projects with overdrafts and communicate with responsible parties to resolve issues before the end of the project or within the 30-90 day window provided by the sponsor agency.
- Reinforce the importance of account reconciliations to PIs and administrative personnel.

Level: This finding is considered Medium due to the creation of a support group that monitors accounts with overdrafts.

Management Response:

As discussed in Section B, overdrafts related to Payroll and Banner will continue to exist until configuration is changed in PeopleSoft.

Overdrafts are reviewed on a weekly basis by the Contracts and Grants Support Center (CGSC) and new overdrafts are promptly addressed with the Project PI.

The use of the PIC2 tool and automated notices of expenses incurred will aid in timely reconciliation and processing of adjustments.

Responsible Party:

Guadalupe Gomez, C&G Director

Implementation Date:

All measures listed in management response are in place now with the exception of the budget checking of Payroll and Banner expenses at the time the transactions are created. UT Share has been informed of the issue, but as yet they have not offered a solution.

C. Invoicing and Reporting

When new awards are received by the University, C&G reviews the award documentation and identifies how funds will be received and what deliverables, such as financial reports, need to be submitted to the sponsor agency.
C1. Accuracy and Timeliness of Invoices

C&G provided all invoices submitted to the sponsor agencies for five cost reimbursable projects that were selected for testing.

Based on the comparison of total expenses incurred in PeopleSoft and total amount invoiced, discrepancies were identified for three of the projects tested:

<table>
<thead>
<tr>
<th>Project</th>
<th>Total invoiced</th>
<th>Total expenses to date</th>
<th>Variance</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>$38,849.57</td>
<td>$38,542.11</td>
<td>$307.46</td>
</tr>
<tr>
<td>2</td>
<td>$79,163.21</td>
<td>$76,783.51</td>
<td>($2,379.70)</td>
</tr>
<tr>
<td>3</td>
<td>$249,014.06</td>
<td>$247,243.64</td>
<td>$1,770.42</td>
</tr>
</tbody>
</table>

The end date was reached for one project; however no invoices had been submitted at the time of testing. The invoices were submitted to the agency prior to the end of the audit.

Due to configuration issues in PeopleSoft, some expenses and credits were not being reflected in the system, resulting in invoicing errors. With assistance of a consultant, the issue was recently resolved and total expenses to date were adjusted. C&G is currently in the process of contacting the sponsors and trying to recover or return the funds as appropriate.

In other projects, invoices have been submitted between two and four months after the end of the billing period. Delayed submission of invoices increases the risk of expenditures not being recovered and/or reimbursed by the sponsor agency.

**Recommendation:**

Continue detailed monitoring of the invoices and billing process to identify any issues timely. Communicate with the sponsor about any issues with invoicing to minimize the loss of funds.

**Level:** This finding is considered **Medium** due to possible losses attributed to invoicing errors.

**Management Response:**

With the assistance of a Huron Consultant, a detailed query extracting data from Proj Resource has been created that identifies unbilled transactions. All unbilled
transactions for prior months are currently being researched, processed and invoiced to the agencies.

The same query is now being used on a monthly basis, after every invoice cycle, to immediately identify any unbilled transactions and address accordingly.

Responsible Party:
Guadalupe Gomez, C&G Director

Implementation Date:
August 31, 2016

C2. Accuracy and Timeliness of Financial Reports
The sample that was tested for accuracy and timeliness of invoices was also used for reporting tests. Only one project of seven required submission of a final financial report.

The final financial report was submitted 120 days after the end date of the project. Amounts reported agreed with cash received and expenses incurred up to the date of submission. However, additional payments were received and adjustments were made after the report was submitted. Therefore, the final report was not accurate.

Unless otherwise approved by the Office of Management and Budget (OMB), the Federal awarding agency may solicit only the standard, OMB approved government-wide data elements for collection of financial information. The non-Federal entity (UTEP) must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award. However, an extension can be requested by the non-Federal entity.

Recommendation:
Adjustments after the final report has been submitted should be minimized. However, when amounts in final reports change, the University should document the changes and inform the sponsor agency of the updated amounts.

Level: This finding is considered Medium due to the possible losses attributed to invoicing errors.
Management Response:

All PIC Tools identified above will aid in minimizing the number of adjustments processed after final report is generated, since the Project PI and Administrator have the ability to reconcile project activity on a weekly and monthly basis.

The Award/Project Milestone notifications that have already been implemented will also aid in minimizing the adjustments after close-out period.

Finally, ORSP and C&G office have already discussed multiple milestones that will be implemented to assist the management of projects. One of those milestones is the Financial Reporting automated notifications. This project is currently in-progress. Once this project is finalized, automated reminders will be sent to ORSP and C&G personnel for reporting deadlines. This should minimize the late submissions and adjustments to financial reports.

To ensure that late submissions and/or adjustments to Final Financial Reports are documented and reported to the agency prior to submission, C&G will implement a new internal process requiring approval by the C&G Director. The Associate Director and/or Manager reviewing the late or adjusted submission will ensure all documentation has been compiled, including notification to the agency, and will submit the information to C&G Director for approval.

Responsible Party:

Guadalupe Gomez, C&G Director

Implementation Date:

December 31, 2016

D. Closeout and Unexpended Funds

Closeout is the process by which the Federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes actions to submit all required information as described in CFR §200.343 Closeout.
D1. Closeout Process in PeopleSoft

We selected a sample of 11 out of 277 projects that ended within the scope period and we verified the status in PeopleSoft. The closeout process in PeopleSoft involves changing project, contract, award and budget status to close.

The close status in PeopleSoft prevents any transaction to be processed without checking for any additional fields. Due to the conversion to PeopleSoft, adjustments needed to be processed after the end of the project and the closeout was not feasible. C&G implemented a process of changing the project status to an alternative status. The alternative status prevents expenses to be processed by PIs, but allows C&G to make adjustments as needed.

From the sample selected results were the following:
- 6 projects were open
- 3 projects had alternative status
- 2 projects were closed

The C&G support group is reviewing projects that have ended and have been cleared to be 'closed'. The review is still in progress. For new projects that have ended, C&G accountants use the alternative status.

**Recommendation:**

*Implement and document a consistent process for closing projects in the system after the end date, and prevent unallowable transactions to be recorded.*

**Level:** This finding is considered **Medium** due to the risk of recording unallowable transactions.

**Management Response:**

*Due to ongoing system billing issues that were encountered since conversion, various projects were not closed. The C&G Support Center has been assisting for several months with the close out of projects. Significant progress has been made but the back log of closeouts is still being addressed.*

*Our office is currently working with UT Share on possibly configuring/creating multiple Project Status Types along with the associated Analysis configuration for each Type to determine department financial transaction access - for C&G internal business process purposes, which will allow to classify and track appropriately. This, along with monthly*
*department reconciliation and Milestone notifications will aid in processing closeouts in a timely manner.*

**Responsible Party:**

*Guadalupe Gomez, C&G Director*

**Implementation Date:**

*December 31, 2016*

**D2. Handling of Unexpended Funds**

The disposition of any balances remaining in a sponsored research account is generally stipulated in the grant or contract document.

§200.345 *Collection of amounts due*

(a) Any funds paid to the non-Federal entity in excess of the amount to which the non-Federal entity is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government.

We selected two projects with fixed contracts. Based on the agreement, unexpended funds needed to be returned to the sponsor agency. We verified the funds were returned in a timely manner.

In addition, three prepaid projects were selected and tested. The University was allowed to keep the unexpended funds, as confirmed by the sponsor via email. We verified one project has already been created with residual funds and two projects are in the process of being created.

The University properly handled unexpended funds. No exceptions were found.
CONCLUSION

C&G has encountered several limitations due to system issues. However, we believe the process can be strengthened by the implementation of the recommendations detailed in this report.

We wish to thank the management and staff of Contracts & Grants for their assistance and cooperation provided throughout the audit.
APPENDIX A: GLOSSARY

BANNER- Banner is a comprehensive system that contains information on courses, students, faculty, alumni, and staff. It is a vast information resource containing courses, grades, scholarships and financial aid information for all colleges and students campus-wide. Tuition related transactions are processed in BANNER and through an automatic process are posted in PeopleSoft.

Commitment Control- is an optional feature of the PeopleSoft Financials, Enterprise Service Automation, and Supply Chain Management product lines that enables you to control expenditures actively against predefined, authorized budgets.

Cost Share or Matching- Means the portion of project costs not paid by Federal funds.

Indirect Cost- Also called Facilities and Administration (F&A) cost. Those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect Cost Base- Identifies budget categories to which F&A rate will be charged. Budget categories may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Indirect Cost Rate- Percentage charged for F&A cost. Federal agencies must use the negotiated rates in effect at the time of the initial award throughout the life of the Federal award.

Notice of Award- Document that contains the account numbers that have been set up and provides award information and agency requirements.

PeopleSoft- PeopleSoft is a commercial accounting software solution powered by Oracle that was implemented in UTEP on May 2014.

Speed-type- Alphanumeric code that auto populates the accounting chartfields, including business unit, cost center/project, function and fund.