



*Office of Internal Audit*

July 5, 2017

Dr. Kirk A. Calhoun, President  
UT Health Northeast  
11937 U. S. Hwy 271  
Tyler, TX 75708

Dr. Calhoun,

We have completed the Grants and Contracts Financial Management Audit that was part of our FY 2017 Audit Plan. The objective of this audit was to perform an assessment of key activities and processes utilized in the financial management of grants and contracts. The audit period covered all of FY 2016 and the first two (2) quarters of FY 2017 (9/1/2016 through 2/28/2017).

This review was conducted in accordance with guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford, Jr.  
AVP, Chief Audit Executive

Enclosure

cc:

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**Grants and Contracts  
Financial Management Audit**

**July 5, 2017**

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**UT Health Northeast  
Grants and Contracts Financial Management Audit  
FY 2017**

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**Report**

***Background***

The Grants and Contracts Financial Management Audit was completed as part of our FY 2017 Audit Plan in the area of risk-based audits. Financial management responsibilities for grants and contracts substantially resides within the UT Health Northeast Office of Sponsored Programs. The Office of Sponsored Programs functions under the leadership of the Director of Sponsored Programs and organizationally reports to the Senior Vice President for Research and Graduate Studies. The Office of Sponsored Programs provides assistance to faculty and staff in obtaining and managing sponsored awards while assuring proper stewardship of the funds. The Office divisions include Pre-Award and Post-Award services. The Pre-Award service division is responsible for coordinating externally funded research projects, assisting with negotiations, budgeting, time extensions, and tracking technical reports. The Post-Award division is primarily responsible for all sponsored projects and contracts once they are awarded and helps ensure compliance with applicable federal and state rules and regulations.

In FY 2016, UT Health Northeast's revenue from federal, state, local, and private grants and contracts was approximately \$28.5 million out of the institution's total operating revenue of approximately \$138.4 million (20.6%).

***Objective***

The objective of the audit was to perform an assessment of the key activities and processes utilized in the financial management of grants and contracts.

***Scope and Methodology***

The audit period covered all of FY 2016 and the first two (2) quarters of FY 2017 (September 1, 2016 through February 28, 2017).

To focus our work on areas of higher risk or concern within grants and contracts financial management processes we completed a risk assessment. Based upon results of the assessment, the financial management processes that were included in the audit included:

- Time and Effort Reporting
- Financial Reporting
- Cash Management
- Allowable Costs and Cost Principles
- Sub-Recipient Monitoring
- Records Archiving
- Grants Close-Out
- Grant Transfers

To achieve the objective, for the processes included in the audit, we performed the following procedures:

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- Reviewed applicable federal, state or program guidelines, institutional contract and grant policies, procedures, contracts and agreements, and operations.
- Reviewed supporting system data, reports and records.
- Interviewed key employees.
- Performed limited testing to substantiate and evaluate the status of processes and controls.

The audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

***Audit Results***

The Office of Sponsored Program's financial management processes involving grants and contracts were evaluated on an overall basis, considering adherence with federal, state, program specific or institutional guidance, as applicable. We found that the Office of Sponsored Program's management and staff are knowledgeable about federal, state and program specific requirements for the various sponsor funding received by UT Health Northeast and has substantially implemented processes and controls to provide reasonable assurance that each sponsor's requirements are met, as required. While reviewing processes, controls, and documentation we identified some opportunities for improvement as detailed within the specific processes discussed below.

***Opportunity for Improvement #1:***

UT Health Northeast has one (1) institutional policy "Grants, Contracts and Sponsored Projects" that addresses certain policy requirements for some of the financial management processes reviewed. However, for a number of the financial management processes reviewed, the Office of Sponsored Programs has not formally documented detailed institutional specific procedures. Since financial reporting and billing procedures, requirements, and documentation varies greatly between specific sponsors and programs, to ensure consistent application and adherence with requirements, management should consider formally documenting institutional processing and approval requirements for financial reporting and billing.

**Ranking:** Low

**Management's Response:** Agreed. The Director of Sponsored Programs will ensure written detailed procedures are developed to provide employees guidance in The Office of Sponsored Program's financial reporting and billing processes, including the required management review and authorizations needed prior to submission of reports or invoices to the sponsors.

**Implementation Date:** November 30, 2017

To validate controls and processes, we reviewed documentation for a sample of selected grant agreements and contracts that UT Health Northeast has with various sponsors. The various sponsors include the Center for Disease Control, Health Resources and Services Administration,

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National Institutes of Health (NIH), American Heart Association, Texas Department of Family and Protective Services, and the Texas Health and Human Service Commission. Due to varied criteria and documentation requirements for each non-federal grant or contract reviewed, within the detailed sections of the report we only referenced the applicable federal criteria. However, we it is imperative to note that we used the pertinent and applicable program specific criteria to evaluate processes during our review.

**Time and Effort Reporting**

**Federal Award Criteria:** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.430 Compensation – Personal Services, §200.431 Compensation – Fringe Benefits.

The Uniform Guidance requires that when salaries and wages are charged to federal grants the payroll systems must be based upon records that accurately reflect the work performed and are supported by a system of internal controls that provides reasonable assurances that charges are accurate; allowable and reasonable; and properly allocated. Payroll distribution records must be incorporated into the official records; reasonably reflect the employee’s total activity; encompass both Federally assisted and all other activities compensated; comply with accounting policies and practices; and support the distribution of salary or wages among specific activities or cost objectives if an employee works on more than one (1) award or activity. Budget estimates are allowable for interim accounting purposes provided that they produce reasonable approximations of the activity actually performed, significant changes in work activity are identified and entered into the payroll distribution system timely, and that the control system has processes in place to review the interim charges after the fact and make any needed adjustments.

**Status:** The Office of Sponsored Programs has activities and processes in place that provide reasonable assurance that salaries and wages charged to federal grants reflect the work performed and the charges are accurate, allowable, and properly allocated in compliance with applicable Uniform Guidance and institutional policies. The institution has in place an after-the-fact effort certification process utilizing the eCRT system that functions within processes designed to provide reasonable assurance and retain documentation to support adherence to requirements.

**Financial Reporting**

**Federal Award Criteria:** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.327 Financial Reporting; §200.328 Monitoring and Reporting Program Performance, §200.329 Reporting on Real Property.

Contracts and grants financial reporting requirements are mandated by the sponsors and are typically stipulated either in the agreement, the Uniform Guidance, or the program guidelines, as applicable. Most grants, at a minimum, require financial reporting annually and when the grant closes. Some contracts in the sample we reviewed require monthly, quarterly and annual financial reports. We reviewed financial reporting processes implemented by the Office of Sponsored Programs along with financial reports and forms submitted for a sample of grants and contracts.

**Status:** Based upon our review of financial reporting processes and documentation, we believe the Office of Sponsored Programs has activities and processes in place to provide reasonable

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assurance that financial reports will be completed in the prescribed format and submitted to the sponsor by the designated due dates.

***Opportunity for Improvement #2:***

The Office of Sponsored Programs currently does not maintain a tracking tool that provides complete or easily accessible information for monitoring financial reporting due dates and report completion and submission dates. Post-Award monitors and tracks financial reports due by obtaining information from each sponsor's website each month, by reviewing the contract database, or by reviewing due dates that are updated monthly on a white board within the Sponsored Programs office. The Director of Sponsored Programs should consider developing and maintaining a tracking tool for monitoring grant and contract specific financial reporting due dates and report completion and submission information.

**Ranking:** Low

**Management's Response:** Agreed. The Director of Sponsored Programs indicates he will expand the current tracking method to combine information in a tool that will allow management and staff to easily track and monitor adherence with financial reporting requirements.

**Implementation Date:** August 31, 2017

**Cash Management**

***Federal Award Criteria:*** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.305 Payment.

For grants and contracts, cash management and billing processes and documentation requirements are determined by the sponsors and are typically stipulated in either the agreement, Uniform Guidance, or program guidelines, as applicable.

The division of Post-Award within The Office of Sponsored Programs is responsible for billing or drawing down funds for a majority of the institution's contracts and grants. Most billing is completed monthly and is on a cost reimbursement basis; however, a few grantors disburse portions of the grant funds on a regularly scheduled basis. Expenditures on these grants are fairly evenly distributed over the course of the grant and new disbursements are typically received about the same time as the prior disbursement has been exhausted. The institution does not request cash advances. Post-Award is responsible for preparing and sending a bill or invoice reflecting the costs for which reimbursements are due to UT Health Northeast for expenditures under the terms of the grant or contract. There are some programs, such as deliverable or milestone based grants, contracts, or programs with patient care aspects, where it is not practical and/or possible for Post-Award to prepare the billing. In those instances, the billing is prepared by the Program Manager or another responsible party within the program, or it is billed through UT Health Northeast's Patient Financial Services Department.

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**Status:** Based upon our review of processes and documentation in place for a sample of grants and contract billing performed by the Office of Sponsored Programs and one (1) other office, we believe activities and processes are in place to provide reasonable assurance that billing is performed timely, in accordance with requirements of the sponsors and institution, and that amounts billed are adequately supported within the institution's financial records. We did not review clinical trial billing performed by the Center for Clinical Research since a billing audit is in progress by the UT Health Northeast Compliance Office.

**Allowable Costs and Cost Principles**

**Federal Award Criteria:** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart E – Cost Principles, §200.400 - §200.475, and NIH Grants Policy Statement – Chapter 7 – Cost Considerations.

Awarded funds must be spent in accordance with applicable guidelines such as Uniform Guidance, agreements, program rules, and institutional policies. For federal awards, any costs charged directly to the award the expense must be allowable, allocable, reasonable, and consistently charged, in accordance with the Uniform Guidance and the NIH Grants Policy Statement cost considerations and any specifics within the agreement or program guidelines. For non-federal awards, UT Health Northeast generally applies similar cost considerations as for federal awards but relies primarily upon the program specific guidelines, the approved budget, and the agreement, to determine the allowable costs. The Office of Sponsored Programs has implemented certain controls to help ensure that only allowable costs are charged to grants and contracts. For grants, the Principle Investigator (PI) of the grant is considered to be the expert concerning allowable vs. non-allowable costs for the grant. The PI or his/her designee must approve all purchases for the grant. Grant requisitions that are over the threshold of \$1,000 must be approved prior to the purchase by a responsible party from Post-Award who is knowledgeable about allowable costs for the specific project. Grant accounts are reconciled monthly to ensure that all expenditures are charged correctly and are appropriate. For contracts, the Program Managers or their designee must approve all purchases and must be knowledgeable about costs that are allowable in accordance with the budget and guidelines.

**Status:** The Office of Sponsored Programs has procedures in place to provide reasonable assurance that only allowable costs and activities are charged to grants and contracts. Controls have been implemented to provide reasonable assurance that only allowable costs are charged to grants and contracts in accordance with the agreements and applicable guidance.

***Opportunity for Improvement #3:***

A key control that the Office of Sponsored Programs has had in place for a number of years, which was designed to help ensure only allowable costs are charged to grants, was inadvertently discontinued when UT Health Northeast implemented the PeopleSoft Workflow module for routing and approval of expenditure transactions. The control consisted of the Director of Sponsored Programs or Grants Accountants' review and sign-off of transactions in the amount of \$1,000 and above prior to charging these costs to the grant. The Director of Sponsored Programs and other employees within the expenditure cycle process were not aware that the control was



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inadvertently discontinued. When notified by Internal Audit about the deficiency, the Director of Sponsored Programs promptly notified employees within the expenditure cycle of the specific sign-off requirement. An appropriate manual process for documenting the review and approval for grant expenditures of \$1,000 or more was put in place. The manual process is required as the result of the PeopleSoft Workflow electronic processes not currently being designed to support this activity.

The Director of Sponsored Programs should ensure that Research's satellite buyers and other employees who are involved in processing transactions that result in charges to grants are properly trained in the Research Department's requirement for the Grant Accountants to review transactions of \$1,000 or more prior to the purchase. Training should include detailed instructions for manually documenting the Grant Accountant's review and uploading the documentation to the electronic system. The Director of Sponsored Programs and Grant Accountants should implement processes for periodically reviewing a sample of expenditures charged to grants that were \$1,000 or more, including the supporting documents, to ensure the control that requires review by the Grant Accountants is consistently applied as intended.

**Ranking:** Low

**Management's Response:** Agreed. The Director of Sponsored Programs sent out a reminder to employees involved in the purchasing process for Research concerning the requirement for the Office of Sponsored Programs to review all grant expenditures that are \$1,000 or more in amount prior to completion of the purchase. He indicates that his office will begin to perform quarterly spot-checks for a sample of grant transactions of \$1,000 and above to validate that the control is consistently being applied and that documentation of the review is uploaded to the system.

**Implementation Date:** November 30, 2017

**Sub-Recipient Monitoring**

**Federal Award Criteria:** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D – Post Federal Award Requirements, §200.331 – Requirements for Pass-Through Entities, Subpart F – Audit Requirements, §200.501 – Audit Requirements, and §200.504 Frequency of Audits.

For federal awards, a sub-recipient is a non-federal entity that receives a sub-award from a pass-through entity to carry out part of a federal program. When UT Health Northeast receives a primary award in which a sub-recipient will carry out a portion of the federal program, UTHNE is responsible for clearly identifying the sub-award to the recipient; providing details of the requirements imposed on the sub-recipient to ensure the federal award is used in accordance with statutes, regulations, terms, and conditions, informing of the approved and applicable indirect cost rate; ensuring auditor's access to the sub-recipient's records and financial statements as necessary; providing appropriate terms and conditions for close-out of the sub-award; evaluating the sub-recipient's risk for non-compliance with regulations and requirements; ensuring that every sub-recipient complies with audit requirements when the threshold is met; and monitoring the sub-recipient's compliance with requirements.

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**Status:** The Office of Sponsored Programs has procedures in place to notify sub-recipients of the award information and to ensure the sub-recipient has procedures in place to comply with monitoring and audit requirements.

**Records Archiving**

**Federal Award Criteria:** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.333 Retention Requirements for Records, and NIH Grants Policy Statement – Section 8.4.2 – Record Retention and Access.

For federal awards, grant recipients generally must retain financial and programmatic records, supporting documents, statistical records, and all other records that are required by the terms of a grant, or may reasonably be considered pertinent to the grant, for a period of three (3) years from the date the annual Federal Financial Report (FFR) is submitted. Capital asset records must be retained for three (3) years after final disposition of the asset.

For the sample of non-federal awards and contracts reviewed there were various record archiving requirements depending upon the sponsor or program guidelines. We did not identify any processes or record types in the institution's Records Retention Schedule that we believe are likely to result in records becoming unavailable during the required retention term.

**Status:** The Office of Sponsored Programs has implemented controls and procedures that provide reasonable assurance that grant and contract records are retained for the term required by the sponsors.

***Opportunity for Improvement #4:***

UT Health Northeast's records are maintained in accordance with the institution's Records Retention Policy and Records Retention Schedule. Although we are not aware of any instances of non-compliance with the federal records retention requirement, for 12 of the 18 record types identified that could potentially contain grant records, the records retention period is not adequate to ensure the availability of grant records for the required term. These include certain records within the institution such as accounts payable, payroll, and capital assets, where data needed to support grant purchases and payments are co-mingled with data where transactions were processed from non-federal sources. We found that departments have not consistently followed the UTHNE Records Retention Schedule and have retained accounts payable, payroll and asset documents longer than required which reduces the likelihood that grant documents may be unavailable when requested. However, there is the risk that for some grants certain documents may not be available for the term required by the grantor, especially if documents were retained in hard copy before electronic scanning was implemented in FY 2010.

The Director of Sponsored Programs should collaborate with the Director of Payroll, Vice President for Information Technology, and other key management to seek an electronic solution for identifying grant transactions within the financial and payroll systems to ensure the documentation to support these transactions is retained for the time period required by the grantors. Until an electronic solution is implemented, the Director of Sponsored Programs should

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collaborate with the department leaders who are responsible for updating the 12 records included in the Records Retention Schedule that could potentially contain grant records to include a statement similar to the following: "Until a technological solution exists that allows UTHNE to parse out data based upon funding sources to ensure grant records are retained for the period of time required by the grantor, UTHNE will need to keep all data within this record series".

**Ranking:** Medium

**Management's Response:** Agreed. The Director of Sponsored Programs indicates he will collaborate with key leaders to explore an electronic solution for segregating grant records from other non-federal records in the PeopleSoft Financial and Human Capital Management Systems. Until a technological solution is identified, he will work with responsible parties in updating certain records in the UT Health Northeast Records Retention Schedule, as recommended, to ensure grant records are available through the required term.

**Implementation Date:** November 30, 2017

**Grants Close-Out**

***Federal Award Criteria:*** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.343 Close-out, §200.344 Post-Close-out Adjustments and Continuing Responsibilities, §200.345 Collection of Amounts Due, and §200.313 Equipment, and NIH Grants Policy Statement – Section 8.6 – Close-out. NIH NOT-OD-15-111 Deadline For Financial Reports Required for Grants Close-out.

Federal awards with a period of performance ending prior to October 1, 2014 have a reporting due date within 90 days from the project period end date. Projects ending on or after October 1, 2014 have a reporting due date within 120 days of the end of the project end date.

The Center for Clinical Research follows each sponsor's schedule for closing studies. Other non-federal grants and contracts have varied reporting requirements and due dates based upon specific agreements and program guidelines.

***Status:*** The Office of Sponsored Programs has implemented procedures that provide reasonable assurance that processes are in place to ensure compliance with sponsors' grant close-out requirements.

The Center for Clinical Research has processes in place to reasonably assure Clinical Research Studies are closed within the sponsors' timelines and processes are in place for promptly notifying the Office of Sponsored Programs of the need to close the study-related PeopleSoft accounts.

***Opportunity for Improvement #5:***

The Office of Sponsored Programs has a process in place for tracking grant budget ending dates to ensure these are closed out timely. However, the grant ending dates reside in various reports and are manually updated each month on a white board within their office which increases the risk

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for data errors and missed timelines. The Office of Sponsored Programs plans to develop a spreadsheet for tracking these dates and documenting close-out completion, however, this tool has not yet been developed.

The Director of Sponsored Programs should ensure that a tool is developed and maintained for managing and monitoring close-out of grants to ensure the grants are completed within the timeframe required by the grantors.

**Ranking:** Low

**Management's Response:** Agreed. The Director of Sponsored Programs will ensure that a tool is developed for effectively managing and monitoring the close-out of grants.

**Implementation Date:** December 31, 2017

***Opportunity for Improvement #6:***

The Center for Clinical Research has processes in place to provide reasonable assurance that clinical research grant files are closed timely and for notifying the Office of Sponsored Programs to close out the related PeopleSoft financials grant account. However, the Office of Sponsored Programs does not have procedures in place for closing the related financial account and resolving residual balances timely.

The Director of Sponsored Programs should implement monthly processes for promptly closing PeopleSoft financials grant accounts after the grant ends.

**Ranking:** Low

**Management's Response:** Agreed. The Director of Sponsored Programs indicates that he will implement a process for closing all clinical research PeopleSoft financial accounts monthly when notified by the Center for Clinical Research that the study has closed.

**Implementation Date:** August 31, 2017

**Grant Transfers**

***Federal Award Criteria:*** US Code of Federal Regulations, Title 2 – Grants and Agreements, Subtitle A, Chapter II, Part 200, Subpart D, §200.313 Equipment, NIH Grants Policy Statement – Section 8.1.2.7 – Change of Grantee Organization.

When a PI transfers from one (1) institution to another, the sponsor must approve the transfer and both institutions involved in the transfer must follow the sponsor's detailed guidelines for effectively moving the grant, related funding, and equipment to the recipient institution.

**Status:** The Office of Sponsored Programs has administrative procedures in place that provide reasonable assurance for adherence with a sponsor's guidelines for effectively transferring grants

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from one (1) institution to another. There have been no grants transferred from UT Health Northeast to another institution for a number of years and the only grants transferred to UT Health Northeast in the past few years have been NIH grants. For the sample of NIH grants reviewed, documentation supported the understanding that processes were in place to ensure that the sponsor's guidelines for grant transfers were followed.

***Opportunity for Improvement #7:***

During the course of reviewing documentation to support grant transfers we found that the Office of Sponsored Programs does not have well-defined procedures in place for checking-in, recording, tagging, and tracking equipment that transfers with a grant to UT Health Northeast. In a number of the transfers, desktop computers, laptops, and other mobile devices that are considered to be controlled equipment, were transferred with the grant. However, we found there was no defined process in place to ensure these assets have the proper security that meets the institution's guidelines. In addition, when a grant transfers from UT Health Northeast to another institution, procedures are not well-defined to ensure the transfer of non-capital and controlled assets is properly approved, adequately documented, and that the assets are removed from the UTHNE financial records. There are no defined responsibilities and procedures for reviewing desktop computers, laptops, or other mobile devices before transferring the equipment to another institution to ensure that UT Health Northeast's confidential information is removed.

The Director of the Office of Sponsored Programs should develop and document the institution's procedures for properly managing equipment transfers made as a result of a grant transferring from one (1) institution to another.

**Ranking:** Medium

**Management's Response:** Agreed. The Director of Sponsored Programs indicates he will develop written procedures and tools for documenting and monitoring equipment transferred to and from UT Health Northeast when a grant is moved from one (1) institution to another as a result of a Principle Investigator transfer. Procedures will include defined responsibilities and processes for reviewing desktops, laptops, or other mobile devices when transferred to and from UT Health Northeast. The Director of Sponsored Programs will collaborate with the Senior Vice President for Research and Graduate Studies to identify the responsible parties for determining if any institutional data and information needs to be removed from computers or devices when grants and equipment are transferred from UT Health Northeast to another institution.

**Implementation Date:** November 30, 2017

***Conclusion***

We evaluated certain activities and processes performed by the Office of Sponsored Programs that are utilized in the financial management of grants and contracts, including processes for time and effort reporting, financial reporting, cash management, allowable costs and cost principles, sub-recipient monitoring, records archiving, grants close-out, and grant transfers. The Office of

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Sponsored Programs has implemented controls and procedures that provide reasonable assurance for adherence with sponsor requirements within the processes reviewed. Certain opportunities for improvement were identified that we believe will improve processes and documentation standards.



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Stephen Ford, Jr.  
AVP, Chief Audit Executive