


The University of Texas at San Antonio


UTSA Auditing & Consulting Services


NRUF Restricted Research Expenditures

Project # 2020-42

December 10, 2020

Reviewed by: DocuSigned by:

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Taylor Eighmy, Ph.D.
President

Prepared by: DocuSigned by:

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Paul Tyler
Chief Audit Executive

Responsible VP: DocuSigned by:

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Dr. Bernard Arulanandam
VP for Research, Economic Development
and Knowledge Enterprise

Responsible VP: DocuSigned by:

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Karl Miller Lugo,
VP for Development and Alumni Relations

Auditors Assigned: Laura Buchhorn, Assistant Audit Director
Jaime Fernandez, Senior Auditor

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
Internal Audit Report # 2020-42

Objective:

Test a sample of restricted research expenditures for compliance with Texas Higher Education Coordinating Board (THECB) [Standards and Accounting Methods \(SAMS\)](#) and institutional requirements in order to meet [National Research University Fund \(NRUF\)](#) eligibility, specifically the requirement to have \$45 million in restricted research expenditures.

Conclusion:

Two gift and endowment expenditures tested were unallowable as NRUF restricted research expenditures. Other expenditures tested complied with SAMS and institutional requirements to meet NRUF eligibility.

Scope:

A sample of restricted research expenditures was reviewed for the period September 1, 2019 through June 30, 2020. Discussions were held with senior leadership from Research, Economic Development and Knowledge Enterprise (VPREDKE) and Development and Alumni Relations (VPDAR).

Management's Action Plan:

FY20 and FY21 research expenditures funded by gift and endowment accounts will be monitored for compliance with NRUF eligibility requirements. *(Medium Risk)*

Audit Results
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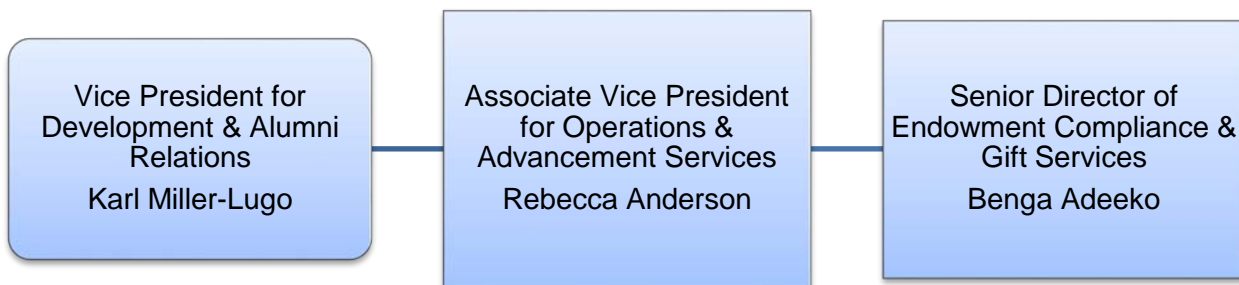
Background:

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

Departments and College Financial Leads process and approve financial transactions to comply with externally restricted research requirements. Under the leadership of the Vice President for Research, Economic Development, and Knowledge Enterprise, Grants and Contracts Financial Services, the Research Service Centers, and Post-Award Administration have monitoring and oversight roles in ensuring restricted research expenditures are allowable and accurate classified.



Gifts and endowments restricted for research are also a component of restricted research expenditures eligible for NRUF criteria. Departments and College Financial Leads process and approve restricted research expenditures to comply with gift and endowment donor restrictions. Under the leadership of the Vice President for Development and Alumni Relations, the Director of Endowment Compliance and Gift Services also monitors restricted research expenditures on gift and endowment accounts based on Donor’s restrictions.



THECB established SAM to ensure consistency in the reporting of restricted research expenditures for NRUF eligibility across all Texas institutions of higher education. The SAM 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).

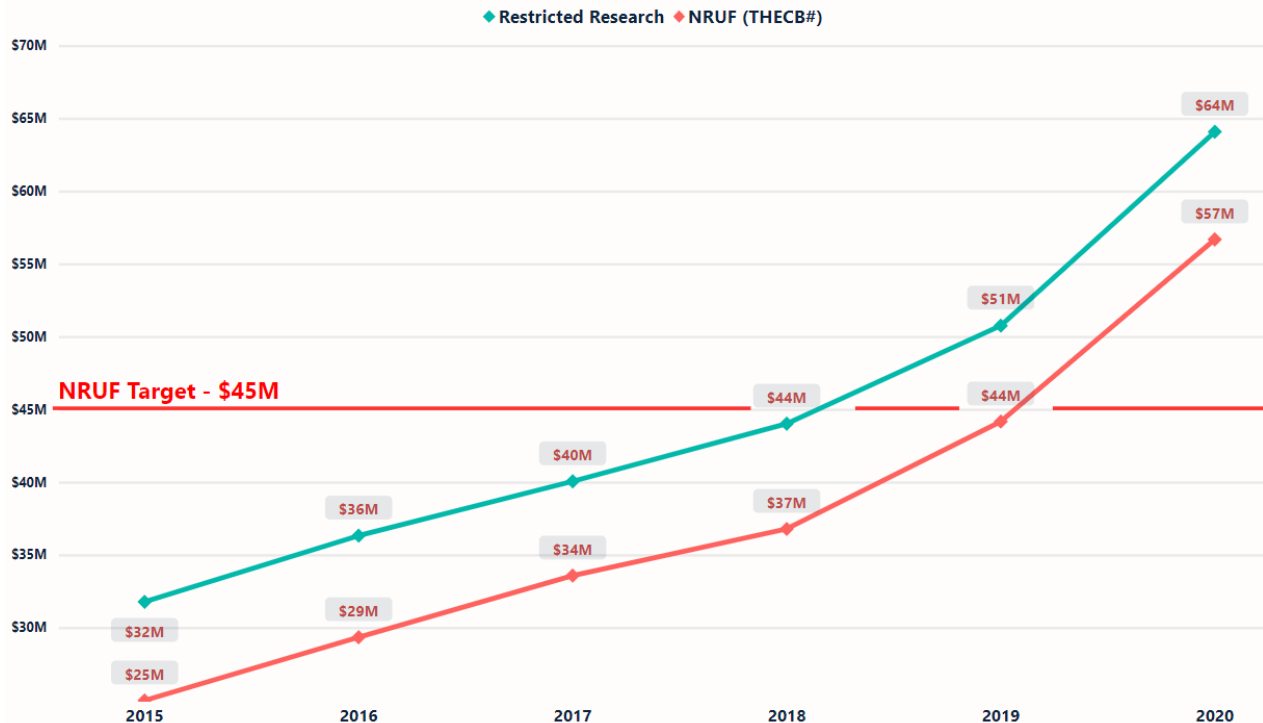
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NRUF was established by the Texas Legislature “to provide a dedicated, independent, and equitable source of funding to enable emerging research universities in this state to achieve national prominence as major research universities.” Eligibility is 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 (Designated in 2009);
2. Must have expenditures of at least \$45 million in restricted research for two consecutive years (Met in FY20 - \$57M); and
3. Must comply with four of the following:
 - \$400 million endowment annually,
 - 200 PhD degrees awarded annually,
 - Freshmen class with high academic achievement (*UTSA has met for two consecutive years according to the April 2020 THECB NRUF Eligibility Report*),
 - Membership in Association of Research Libraries, Phi Beta Kappa or equivalent national recognition (*UTSA has met for two consecutive years according to the April 2020 THECB NRUF Eligibility Report*)
 - High quality faculty (*UTSA target is to meet this benchmark*), and
 - Commitment to high quality graduate education (*UTSA target is to meet this benchmark*).

In the [April 2020 THECB NRUF Eligibility Report](#), UTSA is an emerging research university and meets the two of the six optional criteria: freshman class with high academic achievement and memberships in national recognized associations.

UTSA’s Research Dashboard summarizes the NRUF expenditure trends and target for the past six years. UTSA exceeded the \$45M NRUF Target in FY20.



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Objective: Test a sample of restricted research expenditures for compliance with THECB SAMS and institutional requirements in order to meet NRUF eligibility.

Unallowable Expenditures

THECB Standards and Accounting Methods (SAM) state, "Certain expenditures related to any award classified as restricted research are not allowed to be recorded as restricted research expenditures:

- 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 for personal use, gratuities, or personal, non-research related travel."

Observation:	Two of the six selected sampled endowment and gift expenditures were unallowable as NRUF eligible expenditures.
Risk Level:	Using funds intended for purposes not allowable for restricted research requirements could undermine UTSA's goal to reach NRUF eligibility requirements. This is considered a medium risk.
Management Action Plan:	<ol style="list-style-type: none"> 1. Endowment Compliance and Gift Services will contact the affected departments (Mechanical Engineering and Sociology) to transfer the inappropriate expenditures out of the restricted cost centers thereby replacing the inappropriately expended funds. 2. The Senior Associate Vice President for Research will monitor FY20 and FY21 research expenditures funded by Gift and Endowment accounts for compliance with the Texas Higher Education Coordinating Board Standards and Accounting Methods to ensure NRUF eligibility requirements are met. Any expenditures requiring further review will be discussed with the Office of the Vice President for Development and Alumni Relations for resolution.
Responsible Parties:	<ol style="list-style-type: none"> 1. Benga Adeeko, Senior Director Endowment Compliance/Gift Services 2. Dr. Can Saygin, Senior Associate Vice President for Research
Implementation Dates:	<ol style="list-style-type: none"> 1. December 31, 2020 2. Monitoring has begun and will continue through FY21

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Missing Gift Agreement/Letter

UTSA Handbook of Operating Procedures [9.23, Procedures Governing Private Gift Solicitation, Acceptance, and Management](#) states the processing of all gifts requires the submission of a complete gift processing package including an original signed copy of the gift letter or gift agreement from the donor. The gift letter must identify the purpose of the donation, and the UTSA administrative or academic unit that is to benefit from the gift.

THECB SAM states a gift provided by an external entity (a foundation, business, or an individual) for a specific purpose qualifies as restricted research if there is documented evidence of donor's restriction for research.

One of the six selected sampled gift expenditures did not have a current gift letter or agreement. During the conversion to the PeopleSoft Accounting System in 2014, the original gift agreement was not retained. The Account Request Form that was retained states the purpose of the gift is to support department research activity through the purchase of equipment, software, and supplies. Leadership from the Vice President for Development and Alumni Relations and the Vice President for Research, Economic Development, and Knowledge Enterprise agreed to have Internal Audit perform further analysis in FY21 to determine if missing gift agreements/letters is a systemic issue or an isolated incident.