

Allowability of Costs for Federal Grants

Audit Report # 20-102
June 24, 2020



The University of Texas at El Paso
Office of Auditing and Consulting

"Committed to Service, Independence and Quality"



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Office of Auditing and Consulting Services

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June 24, 2020

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

Dear Dr. Wilson:

The Office of Auditing and Consulting Services has completed a limited scope audit of Allowability of Costs for Federal Grants. 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 Accounting Services (C&G) and the Office of Research and Sponsored Project (ORSP) staff during our audit.

Sincerely,

A handwritten signature in black ink that reads 'Lori Wertz' in a cursive script.

Lori Wertz
Chief Audit Executive

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EXECUTIVE SUMMARY

The Office of Auditing and Consulting Services has completed a limited scope audit of Allowability of Costs for Federal Grants. The objectives of the audit were to determine if federally sponsored project expenditures are:

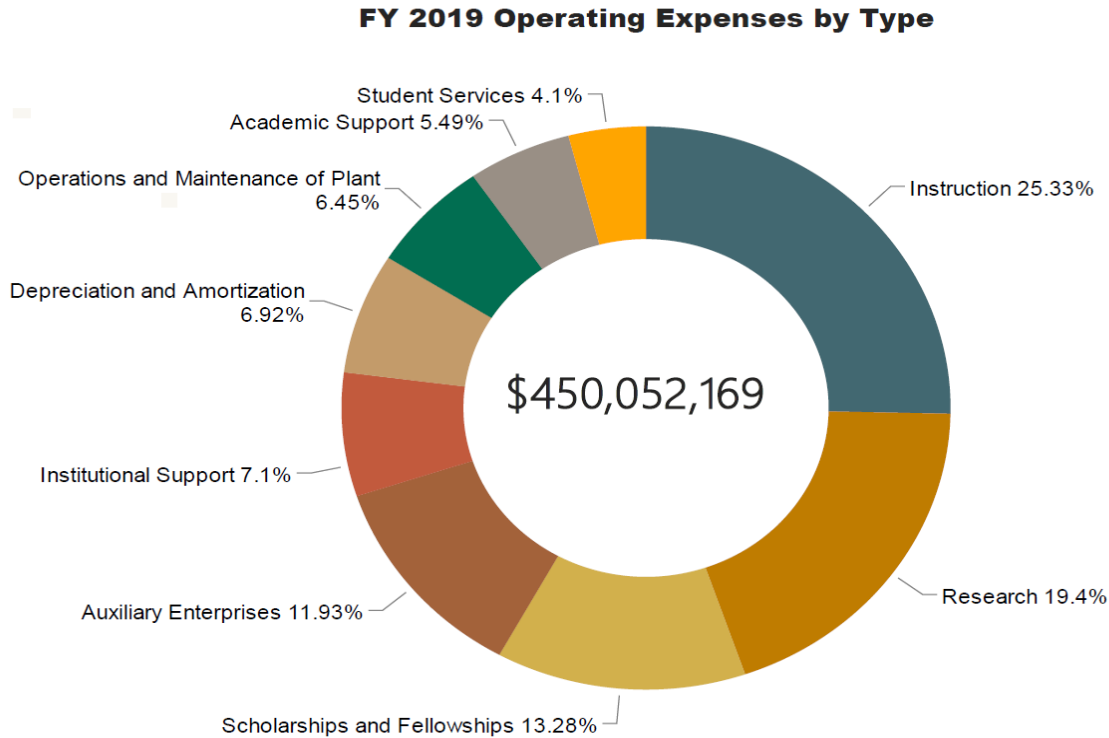
- allowable based on individual grant terms and conditions,
- in compliance with state and federal regulations, and applicable University policies and procedures, and
- adequately documented.

During the audit we noted the following did not always comply with Uniform Guidance Cost Principles: operating, salaries and wages, and participant support (non-employee) expenditures.

With the exceptions noted above, we conclude that there are opportunities to improve the expenditure processing and review of federal grants.

BACKGROUND

The University of Texas at El Paso (UTEP) received an R1 designation by the Carnegie Classification of Institutions of Higher Education for their research activity in December 2018. Research expenses represented 19.4% of total operating expenses in Fiscal Year 2019 (FY 19).¹



As an institution of higher education and a grantee of federal awards, UTEP is subject to the federal guidelines outlined by The Office of Management and Budget (OMB) in Title 2 CFR 200, Cost Principles Subpart E (Uniform Guidance). UTEP must also comply with state laws and the University's business practices, policies and procedures.

The Office of Research and Sponsored Projects (ORSP) provides review and guidance to Principle Investigators (PI) who accept and manage externally sponsored funding, while Contracts and Grants Accounting Services (C&G) provides financial oversight, to include accounting, processing, and managing UTEP's federal, state, local, and private programs.

¹ Source: UTEP AFR Exhibit B for the year ended August 31, 2019.

AUDIT OBJECTIVES

The objectives of the audit were to determine if federally sponsored project expenditures are:

- allowable based on individual grant terms and conditions,
- in compliance with state and federal regulation, and applicable University policies and procedures, and
- adequately documented.

SCOPE AND METHODOLOGY

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

The scope of the audit included \$36,149,276 in expenditures from federally sponsored projects during September 1, 2018 to June 30, 2019.

We performed the following procedures:

- interviewed key personnel,
- reviewed applicable federal, state, program guidelines, institutional contract and grant policies and procedures, and federal contracts and agreements.
- reviewed supporting system data, reports, and records, and
- limited testing of the following expense types:
 - operating²
 - salary and wages
 - participant support

² Operating expenses excluded: travel, Procard, and indirect costs (F&A). Travel and Procard expenditures are being audited separately in FY20.

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. Operating Expenses

2 CFR 200.302(a) Financial Management requires that “each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state’s own funds.” In addition, the entity’s financial management system must be sufficient to permit the preparation of reports, tracing of funds, and have adequate documentation.

A.1. Operating expenditures do not always comply with Uniform Guidance

Contracts and Grants (C&G) does not review Miner Mall (P.O. vouchers) or Procurement card expenditures for grant compliance. C & G only reviews non P.O. vouchers.³

We tested 40 operating expense transactions, totaling \$94,102, which resulted in the following:

- Thirteen vouchers, totaling \$11,997, were recorded in the wrong PeopleSoft Account.
 - Six of the 13 vouchers, totaling \$8,792, were purchases made through a purchase order (P.O.) in Miner Mall.
- Seven transactions, totaling \$3,205, were processed without a P.O.
- One transaction totaling \$398 did not have adequate support documentation to justify the transaction.

Recommendation:

C&G should improve monitoring procedures to detect and correct errors with expense accounts and support documentation, and consider including ProCard and MinerMall expenses in their review process.

³ Non-P.O. vouchers do not require a purchase order to be created or used to make a purchase. They include: procurement card purchases, travel and entertainment expense reimbursements, or miscellaneous payments for items that cannot be purchased through MinerMall (UTEP’s procurement system).

Level: This finding is considered **MEDIUM** because processing errors and insufficient support documentation increases the risk of non-compliance with Uniform Guidance, which could affect sponsored funding.

Management Response:

We agree that correct manual categorization of expenditures is a continuing challenge, and we concur with the recommendation to improve training for assigning the correct expense account to authorized expenditures. Contracts & Grants will schedule training with Grant Admins (initiators of all vouchers and expense reports) and Accounts Payable Staff to ensure the initiation and review of vouchers and expense reports includes consistent review of the expense account. We will stress that the respective supporting documentation must be included. As a final check and balance, Contracts & Grants Support Center Staff will final review non-PO vouchers and expense reports in the grants domain, to ensure consistency, accuracy, and allowability.

We disagree that the single “transaction did not have adequate support documentation to justify the transaction. The current APS process requires a resume/vita in the APS approval process, not at the payment process, as documented under the instructions for APS (page 4, section 3, 2nd paragraph: “If the provider status is that of an independent contractor, upon completion of the work, submit a local voucher with the approved APS form to the payroll office to generate payment”).

Further, per 2 CFR 200.302, a resume at the expense level is not needed based on the interpretation of this section of the UG. “Records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; 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” to determine allowability of expense, payment of the expense, or tracing the expense as required. Given that support documents are already in place at the time of the request for authorization of personal services, we are satisfied that we can meet regulatory requirements of being able to “trace the expense”, therefore, we do not agree with this recommendation.

Of note, ProCard, and Miner Mall expenses are not reviewed by Contracts and Grants, or the Support Center. This review is done at the department level, Since ORSP/C&G does not have the access nor the resources to monitor those expenses, we will try to provide as much resources (such as training) to the various offices/departments for accurate review and expense coding.

Responsible Party:

Manuela Dokie, AVP for Research and Guadalupe Gomez, Director of C&G Accounting

Implementation Date:

*Training Development: August 31, 2020
Training Implementation completion: August 31, 2020*

OACS Response:

Regarding the APS process, no support documentation was provided indicating that the resume/vita was included. Consequently, we were unable to confirm it went through the approval process prior to payment, which the APS instructions require.

B. Salary and Wage Expenses

2 CFR 200.430(i) Standards for Documentation of Personnel Expenses states, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal controls, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;*
- (ii) Be incorporated into the official records of the non-Federal entity;*
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities."*

UTEP's Handbook of Operating Procedures (HOP) VII Chapter 5: Cost Center/Project Review Policy requires that cost center and project administrators:

- review the accounts for which they have signature authority,
- reconcile the accounts monthly,
- report any discrepancies and resolve them in a timely manner,
- retain evidence of verification documents, and
- approve the reconciliation.

Project administrators and the PIs perform this function within the Project Information Center (PIC) tool.⁴ However, they are required to retain documentation as outlined in the HOP.

B.1. Salary and wage expenditures do not always comply with Uniform Guidance

Of the eight projects with forty-one salary/wage transactions tested, totaling \$71,434, the following was determined:

- Three PIs did not perform an account reconciliation for salary and wages, totaling \$20,120 for a single month.
- Seven salary expense transactions, totaling \$23,105, did not contain the required support documentation.
- Two project accounts were missing verification signatures on the statement of accounts summary from either the reconciler, the PI, or both in one case.
- Three PIs did not certify their project accounts in the PIC tool. PI's receive monthly email reminders from ORSP to certify individual expenses, including prior months.

Currently, there is no management review process for project account reconciliations.

Recommendation:

PIs should perform timely monthly account reconciliations for federally funded grants, and keep complete and accessible support documentation.

- *C&G should consider implementing a monitoring program for project reconciliation packets outside the PIC tool.*

Level: This finding is considered **HIGH** because without oversight or enforcement of salary and wage records, increased risk of non-compliance with Uniform Guidance could affect sponsored funding.

⁴ The PIC database tool assists PI's with project management, which includes award contracts and information related to funding, expensing, and reporting.

Management Response:

We agree that grant expenditures need to be verified and certified in a timely manner; specifically, salaries and wages expenses; however, the key person in this process is the project administrator. Current processes require the departmental or business center project administrator to verify each expense and reconcile individual projects in PIC on a monthly basis and to maintain appropriate and reasonable backup documentation. The Principal Investigator of each project is required to review and certify the reconciled projects on a quarterly basis.

PIC is the application that provides the PI with a complete summary of all components of their projects' budget overview and links to related documents (i.e. award documents, budget justification, proposal, assignments, and mostly, budget overview that puts all expenditures to be certified in perspective). Similarly, PIC provides ORSP Specialists with a real time summary of both verification of projects by Business Center Project Administrators and certification of those results by the PI. This has allowed ORSP to systematically contact the delinquent administrators and PI's, and requested them to perform their verification/reconciliation/certification. There are two ways – one is through the regular notification system, the other is the escalation method where specific individuals are contacted to complete the process. Please note that PI's cannot certify their expenditures UNTIL the admin has verified/reconciled the project/grant, highlighting the importance of the admin verification process. Delays in this process can arise when admin assignments are frequently changed, leading to uncertainty as to who is verifying which accounts, or when the volume of assigned accounts is at an unreasonable level. We do not agree with the risk level of HIGH.

To remedy such cases and to facilitate accurate and timely verification of expenditures, staffing levels should be appropriate to the grant expenditure/verification/reconciliation workload. Regarding the intent of the first recommendation, we strongly recommend restoration of at least some of the grant review capacity that was lost during the recent reorganization of responsible admins. In particular, trained program staff (e.g., grant managers for major grants, often paid for by the grants, themselves) have their access to PeopleSoft reinstated. Restoration of such access would once again allow these grants managers to carefully monitor and verify all expenditures on major grants (federal and other), while significantly reducing the workload burden on business center staff, thereby increasing time for review of other projects. VPBA and Budget Office have already been briefed and are not opposed. Details to be solidified and considered at a later time.

Regarding the 2nd recommendation, the PIC serves as the primary mechanism for verification, reconciliation, and certification of grant expenditures, but we agree that a more careful monitoring plan with listing of types of essential backup documentation needs to be developed and implemented. Currently, no policy, guidelines, internal

control framework, etc, prescribe exactly what backup documents constitute the effectiveness of controls. Given the sheer complexity of our semi decentralized expenditure review processes, it would be inefficient, not cost effective, and by sheer volume of expenditures not feasible to keep backup copies for each individual transaction. We agree to discuss and review with VPBA to determine appropriate and relevant documents that must be kept to lower risk of "HIGH", as the current UTEP policy is outdated and ORSP was not included in the development thereof. Based on the preceding, we do not agree with the risk assessment of "HIGH" and further, don't agree with the recommendation of 1) including additional monitoring of expense outside our current function and 2) adding additional monitoring to check for backup documents.

We disagree with the recommendation to add additional review to check on reconciliation made by different department administrators. Given staffing considerations, it is not reasonable for ORSP staff to do site visits to verify that department level or business center admins have reconciled projects assigned to them, and have backup documentation for the expenditures they verify and use to reconcile the projects. We recommend this duty be assigned to Business Center Managers, who have direct control over the business center administrators. It is understood that there need to be additional discussion for this assignment and review with VPBA and College CAOs.

The above management response is built on the Uniform Guidance 2 CFR 200.430 (Subpart E—COST PRINCIPLES) which is also the foundation for ORSP policy: <https://www.utep.edu/orsp/policies/after-the-fact-payroll.html>

Responsible Party:

Manuela Dokie, AVP for Research and Compliance

Implementation Date:

Second Recommendation: August 31, 2020 (will work with VPBA Office to establish list of reasonable and essential backup documents)

C. Participant Support Expenses

Participant support is paid to non-employees in support of the University's research projects. Participants include students, scholars, and scientists. The University allocates participant support (i.e. funding) to cover participants' travel, stipends, and scholarships.

C.1. Participant support expenditures do not always comply with Uniform Guidance

The University incorrectly used some participant support funds to pay full-time University employees, student employees, and consultants. Of the 40 transactions tested, totaling \$83,923, the University paid:

- three student employees \$2,245 for scholarships, stipends, and travel,
- one full-time employee a total of \$660 for travel expenses on two separate occasions, and
- one consultant \$8,101 to provide training.

Uniform Guidance 2 CFR 200.75, states that employees are not eligible to receive participant support funds. In addition, Uniform Guidance excludes providers of training, or consultants, from receiving participant support.

In these instances, Contracts & Grants Accounting (C&G) did not verify employment for the recipients or detect and correct participant support expenses. There are various sources used to expense participant funds including non-P.O. vouchers, expense reimbursements, and student notice of awards (SNOA)⁵. Proper oversight may detect errors and fraud. Non-compliance with federal regulations could result in the University having to repay funds to grantors, possible revocation of the grant, or loss of future funding opportunities.

Recommendation:

All payment requests should be verified against the current employee database prior to authorization and issuance.

Consultants should be paid from budgeted consultant funds, and student awards should be processed through a SNOA.

⁵ The following types of SNOAs are available to UTEP students: Participant Award, Scholarship, Student Activity Award, and Tuition Support. SNOA is currently the official method of processing student awards.

Level: This finding is considered **MEDIUM** because as an R1 research institution, non-compliance could negatively affect sponsored funding and the University's reputation.

Management Response:

As to first recommendation: We agree with the recommendation of reviewing for employee status to ensure the correct expense code is applied and that the employee is not supported/employed by the same funding source as the stipend funding source. C&G Support Center Staff will review each SNOA to ensure that it is the right form for the intended payment. On Training Grants, SNOA's are the correct tool to issue student awards (tuition support and scholarship funds). For participatory stipends, the SNOA process might not be applicable. This review process is documented in each C&G Support Staff process guide. There are several different means and expectations to support students, where the SNOA is for UTEP enrolled students to receive a scholarship and tuition support. However, there are instances where agencies mandate participatory stipends be paid to students in lieu of S&W, which cannot be processed via SNOA. Also, SNOAs cannot be used to pay a participatory stipend to non-UTEP enrolled students, although it is a support expenses. We agree that additional policies and forms need to be developed to handle this support requirement to be in keeping with IRS and Federal agencies laws and rules, and UTEP policies.

As to the second recommendation: We agree with the recommendation on ensuring that correct expense accounts are used for consultants and students. The above noted finding was human error as to the expense account, but the actual transactions were allowable under the grant.

Responsible Party:

Manuela Dokie, AVP for Research and Compliance, Guadalupe Gomez, Director of C&G Accounting

Implementation Date:

*First Recommendation: Process guide update – August 31, 2020;
Second Recommendation: Develop policy and process guide – August 31, 2020*

CONCLUSION

Based on the results of audit procedures performed, we recommend that C&G Accounting Services strengthen internal controls by improving their monitoring process for all grant expenditures.

We wish to thank the management and staff of C&G Accounting Services and ORSP for their assistance and cooperation provided throughout the audit.

As stated in the Scope and Methodology section, our work included interviewing key personnel and reviewing the documentation they provided. We also performed a thorough review of applicable federal, state, program guidelines, institutional contract and grant policies and procedures, and federal contracts and agreements, and completed limited testing. We based the recommendations on the results of that work performed. Consequently, we stand by our recommendations.

APPENDIX A: DEFINITIONS

The Office of Management and Budget (OMB): An agency in the executive branch of the federal government, which works to direct all of the federal agencies.

The Code of Federal Regulations (CFR): authored by the federal agencies that administer grants to provide uniform guidance for non-federal entities. The CFR is divided into 50 titles representing broad areas subject to federal regulation, with the subdivisions covering specific regulatory areas. The OMB issues Title 2 of the CFR, with cross-cutting cost principles outlined in 2 CFR 200, Subpart E.

Non-Federal Entity: A state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or sub recipient.

2 CFR 200, Subpart E "...must be used in determining the allowable costs of work performed by the non-federal entity under Federal awards. These principles must also be used by the non-Federal Entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price."