

Federal Grant Compliance

Cockrell School of Engineering

August 2021



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August 31, 2021

President Jay C. Hartzell
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Hartzell,

We have completed our audit of Federal Grant Compliance for the Cockrell School of Engineering (Engineering) as part of our Fiscal Year 2021 Audit Plan. The objective of the audit was to determine whether the control structure provides for allowable, allocable, and reasonable expenditures on federal awards. Specifically, the objectives were to determine whether internal controls exist to ensure:

- Non-payroll expenses comply with Uniform Guidance (2 CFR 200) and sponsor requirements
- Non-payroll expenses are incurred during the period of performance
- Cost transfers comply with federal and sponsor requirements

Engineering maintains a decentralized grant administration control structure that may increase risks of non-compliance with federal and sponsor requirements. Engineering does not have documented standard procedures, and departments differ in grant management processes. There are opportunities to strengthen controls to better ensure compliance and to provide training and guidance on particular expenditure categories. The report is attached for your review.

Please let me know if you have questions or comments regarding this audit.

Sincerely,

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Dr. Roger T. Bonnecaze, Interim Dean, Cockrell School of Engineering
Dr. John G. Ekerdt, Associate Dean of Research, Cockrell School of Engineering
Ms. Renee Gonzales, Assistant Vice President for Research, Office of Sponsored Projects
Ms. Linda Haster, Associate Director, Sponsored Projects Award Administration
Ms. Monica Horvat, Director of Administration for the President, Office of the President
Dr. Daniel Jaffe, Vice President for Research
Dr. Catherine Stacy, Chief of Staff, Office of the Executive VP and Provost
Dr. Sharon L. Wood, Executive Vice President and Provost



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Executive Summary

Federal Grant Compliance Engineering Cockrell School of Engineering Project Number: 21.012

Audit Objective

The objective of the audit was to determine whether the control structure provides for allowable, allocable, and reasonable expenditures on federal awards. Specifically, the objectives were to determine whether internal controls exist to ensure:

- Non-payroll expenses comply with Uniform Guidance (2 CFR 200) and sponsor requirements
- Non-payroll expenses are incurred during the period of performance
- Cost transfers comply with federal and sponsor requirements

Conclusion

The Cockrell School of Engineering maintains a decentralized grant administration control structure that may increase risks of non-compliance with federal and sponsor requirements. Engineering does not have documented standard procedures, and departments differ in grant management processes. There are opportunities to strengthen controls to better ensure compliance and to provide training and guidance on particular expenditure categories.

Audit Observations¹

Recommendation	Risk Level	Estimated Implementation Date
Grant Expenditure Compliance	High	December 2021

Engagement Team

Ms. Erika Lobsinger, Internal Auditor I
 Mr. Patrick McKinney, CIA, Assistant Director
 Ms. Kiersten Mercado, Internal Auditor III
 Mr. Ramiro Muñoz, Internal Auditor I

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Audit Results

The Cockrell School of Engineering (Engineering) maintains a decentralized grant administration control structure that may increase risks of non-compliance with federal and sponsor requirements. Engineering does not have documented standard procedures, and departments differ in grant management processes. Departments indicated principal investigators (PIs) typically approve expenditures prior to authorization; however, this control is not frequently documented.

Internal Audits tested 232 federal grant expenditure transactions and identified 14 (6 percent) that did not comply with federal or sponsor requirements (See Appendix 1). There are opportunities to strengthen control procedures to better ensure compliance, and to provide training and guidance on particular expenditure categories. These opportunities are outlined in the observation below.

Observation #1 Grant Expenditure Compliance

Travel Expenditures

Travel reimbursements exceeded federal lodging per diem rates established by the U.S. General Services Administration (GSA) by \$675². Departments explained they followed travel guidance as stated in *DEFINE, which cites 'UT Local Rules' on federal grants. However, local rule guidance provided by The University of Texas at Austin (UT Austin) does not align with federal rules. Additionally, UT Austin travel policies do not directly address travel expenditures on federal funding. Current travel policies allow travelers to exceed federal limits on local funding, but restrict travelers to GSA rates on state-funded accounts.

According to 2 CFR 200.475, travel costs must be considered allowable only to the extent they do not exceed charges normally allowed by the non-Federal entity's regular operations and written travel policy. In the absence of an acceptable written policy, rates established by the GSA must apply. Furthermore, 2 CFR 200.403 requires costs be consistently and uniformly applied to federal and non-federal funds.

Two travel reimbursements for premium airfare were also identified. Neither had an approved exception request, and the travel reimbursement review and approval process did not ensure that costs complied with federal and UT Austin requirements. 2 CFR 200.475 prohibits airfare costs in excess of the basic, least expensive accommodations, unless certain criteria are met, and UT Austin policy requires travelers to obtain the lowest available airfare unless Travel Management Services has approved an exception.

² Six of the 31 (19.4 percent) travel reimbursements tested included lodging that exceeded federal per diem rates.



Participant Support Costs

Participant support costs did not comply with federal and sponsor requirements³. Participant support is defined by 2 CFR 200.75 as direct costs that are, “paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.” See below for details of the unallowable costs.

- A scholarship totaling \$3,777 was awarded to a graduate student; however, the grant only approved participant support for middle and high school students.
- A Research Experience for Undergraduate (REU) stipend for \$1,000 was paid to a REU participant who did not meet the program’s citizenship requirements.
- A reimbursement of \$90 was paid to a public school for the cost of a substitute while a teacher attended a conference. Per Office of Sponsored Projects (OSP) guidance, participant support costs do not include, “agreements with employers to reimburse the employer for the costs related to sending its employee to a conference or workshop.”
- A reimbursement of \$351 was paid to a graduate student for costs of a social event. The grant only approved participant support costs for undergraduate students and primary/secondary teachers.

Departmental expenditure review procedures did not identify these costs to be noncompliant, and grant management personnel indicated they rely on PI approval to determine transaction allowability.

Tuition Reduction Benefits

Tuition reduction benefits (TRB) were not appropriately allocated to grant accounts in proportion to student effort⁴. TRBs are offered to certain graduate students as compensation for their student employment. The UT Austin Graduate School provides guidance stating that a TRB amount, “is based on the number of hours of the appointment....” Additionally, 2 CFR 200.466 requires tuition reductions be allocated in accordance with the work performed.

One TRB included 95 percent of total semester tuition (\$5,024 of \$5,277) allocated to a federal grant that the student did work on during the semester the TRB was received. An additional TRB was allocated to two grants in amounts exceeding the level of student effort on the respective projects. The TRB was over allocated among the awards by approximately \$586 – \$660. UT Austin and Engineering do not provide official guidance on prorating TRB amounts and calculations among awards; therefore, it was not possible to determine exact misallocation amounts. Grant management personnel indicated they rely on PIs to determine which grants will fund student TRBs.

Recommendation: Engineering should provide guidance and training to faculty and staff on federal grant travel rules, allowability and best practices for participant support expenditures, and allocation of student TRBs to applicable awards/projects. Staff and faculty responsible for grant management should develop processes to ensure these expenditures comply with regulations and policies.

³ Four of 37 (10.8 percent) participant support costs tested did not comply with federal or sponsor requirements.

⁴ Two of four (50 percent) TRBs tested were misallocated among grant awards.



Additionally, Engineering should ensure the unallowable expenditures identified are removed from the respective grant accounts.

Management's Corrective Action Plan: Engineering sees this as an opportunity to work with OSP, Sponsored Projects Award Administration (SPAA), and other CSUs with research expenditures over \$100M to adopt best practices and develop a standard procedures document for CSUs with decentralized grant administration. The standard practices document will incorporate the areas identified in the audit results, *viz.*, travel expenditures, participant support costs, tuition reduction benefits, cost transfers, and costs near award end. Engineering had research expenditures of \$199M in Fiscal Year 2019-20. We seek collaborators on the standard procedures document whose scale of post award activity is unlikely to be managed in one office and will have to rely on many post award offices to serve the CSU enterprise. CSUs will be identified in consultation with the Office of the Vice President for Research.

Travel Expenditures

Engineering will follow the guidance and the stronger controls for travel on federal awards that OSP and Travel Services will develop. The standard procedures document mentioned above will incorporate this updated guidance, describe procedures for requesting exceptions, and require internal travel reimbursement review to ensure that costs comply. Training will be provided to all department and center staff responsible for approving travel requests and for processing travel reimbursement documents. This training will be done at the start of each fiscal year by the Engineering Office of Business Affairs. Engineering will conduct a training session once the documents are ready this fall. Until the standard procedures document is developed, staff responsible for travel will attend workshops, such as the Domestic & International Travel Guidance Workshops conducted by Texas Global. Departments and Organized Research Units (ORU) were asked to send at least one representative to the first such workshop on August 17, 2021.

Participant Support Costs

Engineering, with guidance from OSP and SPAA, will develop a document on allowable costs that comply with federal guidance and how to determine any agency-specific restrictions in the award documents. This document will be incorporated into the standard procedures document. Engineering will work with OSP to flag and identify any funded projects at award time that have sponsor-approved participant budgets. The PIs and department/ORU staff that process payments will be given the written policies. The Engineering Office of Business Affairs will hold an annual workshop with the staff so they can identify nonallowed costs and work with the PI to direct the costs to an appropriate and compliant account.

Tuition Reduction Benefits

We will work with OSP and SPAA on a TRB policies/procedures document that will be shared with Department/ORU staff responsible for making tuition and fee (T&F) appointments for students. We also anticipate developing an algorithm faculty can refer to in assigning accounts for T&F payments, and a set of illustrative examples to describe the correct application of the TRB – including students appointed full-time on the award and students who are prorated against more than one award. The policy and algorithm will be shared with the faculty at the start of



each FY along with the information they receive at that time from the Associate Dean for Academic Affairs.

Responsible Person: Associate Dean for Research

Planned Implementation Date: December 3, 2021. If updated travel expenditure guidance has not been completed by this date, it will be incorporated into the standard procedures document upon completion by OSP and Travel Services

Additional Risk Considerations

Cost Transfers

Engineering departments have inconsistent and manual review and approval processes that may increase the risk of unallowable costs transferred to federal grants. All cost transfer transactions tested were allowable; however, several of the cost transfers did not include appropriate approval.

Costs Near Award End

Internal Audits tested 37 expenditure transactions recorded to grants after the award end date. All transactions occurred within the award period of performance; however, one expenditure included small equipment that was not used on the award. The purchase was made to replace equipment used during the project, but the original equipment was not purchased with the grant.

Campus-wide Consideration

Travel Expenditures

Internal Audits will communicate with OSP and Travel Services so they can provide updated guidance and implement stronger controls for travel on federal awards. In addition, Internal Audits will work with OSP to review travel on all of UT Austin's active federal awards and calculate amounts that should be transferred off the accounts.

Background

The Cockrell School of Engineering is a nationally-ranked engineering school and the top-rated program in Texas. In Fiscal Year 2020, the school received approximately \$144M in sponsored research, comprising 18 percent of UT Austin's \$797M in awards.

Federal grants are subject to 2 CFR 200, which provides guidance for receiving and using federal awards, uniform administrative requirements, cost principles, and audit requirements.



Scope, Objectives, and Methodology

This audit was conducted in conformance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

The scope of this review included non-payroll expenses incurred during September 1, 2019 – January 1, 2021. Specific audit objectives were to determine whether:

- The control structure provides for allowable, allocable, and reasonable expenditures on federal awards
- Non-payroll expenses comply with 2 CFR 200
- Non-payroll expenses are incurred during the award period of performance
- Cost transfers comply with 2 CFR 200 and sponsor requirements

The following procedures were conducted:

- Conducted interviews with four Engineering departments (Microelectronics Research Center, Chemical Engineering, Texas Materials Institute, and NASCENT) to identify controls over direct costs, cost timing, and cost transfers
- Tested controls to verify effectiveness in providing for allowable, allocable, and reasonable transactions on federal awards
- Tested a judgmental sample of award agreements and non-payroll transactions for compliance with 2 CFR 200 and sponsor requirements



Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

Report Distribution

The University of Texas at Austin Institutional Audit Committee

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The University of Texas System Audit Office
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Appendix 1 Unallowable Grant Expenditures

Account Number	Transaction ID	Transaction Description	Transaction Amount	Questioned Amount	Observation
26-0839-18	60VP5973884	Lodging and Airfare	\$1,516.01	1,337.01	Lodging of \$208.05/night exceeds the GSA per diem rate of \$179/night by \$29.05. Business Select airfare of \$1,307.96 was purchased without an approved exception request.
26-0839-18	60VP5974457	Airfare	\$607.98	607.98	Business Select airfare was purchased without an approved exception request.
26-0839-18	70VP5995532	Lodging (one night)	\$245.00	\$61.00	Lodging exceeds GSA per diem rate of \$184/night by \$61.
26-0839-18	70VP5993037	Lodging (two nights)	\$457.30	\$131.30	Lodging exceeds GSA per diem by \$131.30. Two nights lodging at \$228.65/night, but GSA rate was \$163/night.
26-0839-18	60VP5971487 / 60VT6972882	Lodging (three nights)	\$870.00	\$390.00	Lodging exceeds GSA per diem rate by \$390. Three nights lodging at \$290/night, but GSA rate was \$160/night.
26-1002-49	60VP3997223	Scholarship	\$3,777.00	\$3,777.00	Scholarship awarded to a graduate student; however, participant support was only approved for middle and high school students.
26-1011-33	70VP3997284	REU Stipend	\$1,000.00	\$1,000.00	Student did not meet citizenship eligibility requirements for National Science Foundation REU stipend. Stipend paid in two transactions of \$500, with a net of \$860 to the participant, and \$140 withheld for taxes.
26-1011-33	60VPE967317	Official Occasion Meals	\$350.84	\$350.84	Graduate student social event unallowable as participant support.
26-1011-33	60VP5963517	Lodging (two nights)	\$295.80	\$33.80	Lodging exceeds GSA per diem rate by \$33.80. Two nights lodging at \$147.90/night, but GSA rate was \$131/night.
26-1011-33	60VP5962294	Lodging Upgrade	\$180.00	\$30.00	Traveler did not receive approval for room upgrade. Upgraded room exceeded GSA per diem rate of \$150/night by \$30.
26-1011-33	70VP2973557	Reimbursement to School District	\$90.00	\$90.00	Reimbursement to school district to cover cost of substitute teacher while primary teacher was attending a conference. Payments to employers are unallowable under participant support.
26-1540-82	70VP7998632	Equipment	\$209.85	\$209.85	Equipment not used during the award period of performance.
26-1540-82	TRB9958YG*	Tuition Reduction Benefit	\$5,023.50	\$5,023.50	Student work performed on projects does not match TRB allocation amounts.
26-3984-30/ 26-6306-20	TRB9952MB*/ TRB995YS7*	Tuition Reduction Benefit	\$5,050.00	~\$600.00	Student work performed on projects does not match TRB allocation amounts.

*ID in FRMS