



**FLORIDA
INTERNATIONAL
UNIVERSITY**

Office of Internal Audit

**Audit of Contracts and Grants Administration
Herbert Wertheim College of Medicine**

Report No. 12/13-06

October 8, 2012



Date: October 8, 2012

To: John Rock, Dean, Herbert Wertheim College of Medicine and
Senior Vice President for Medical Affairs

From: Allen Vann, Audit Director 

Subject: **Audit of Contracts and Grants Administration – Herbert Wertheim
College of Medicine, Report No. 12/13-06**

We have completed an audit of contracts and grants administration at the Herbert Wertheim College of Medicine. The objective of our audit was to determine whether the College's established internal controls and operating procedures are adequate and effective to ensure the proper administration of sponsored research grants, which consists of pre-award and post-award procedures. The total amount received by the College in grants during FY 2011 totaled \$5,088,811, which represents a 27.02% increase from FY 2010 (\$4,006,314).

Overall, our audit disclosed that the College had good controls and procedures and followed sound grants management practices for the administration of their sponsored research projects. Management agreed to implement four recommendations including opportunities for improvement in the pre-award area of grant proposals comprising the negotiation of awards with the sponsors.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

- C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Douglas Wartzok, Provost and Executive Vice President
Andres Gil, Vice President for Research
Carolyn Runowicz, Executive Associate Dean for Academic Affairs
Liane Martinez, Executive Associate Dean for Finance and Administration
Barry Rosen, Associate Dean for Basic Research and Graduate Studies

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OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the Herbert Wertheim College of Medicine (HWCOC or College). The primary objective of our audit was to determine whether the College's established internal controls and operating procedures are adequate and effective to ensure the proper administration of sponsored research grants, which consists of pre-award and post-award procedures.

Our audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. We reviewed the College's sponsored research grant activity through March 31, 2012. Audit fieldwork was conducted from April to June 2012.

We reviewed the College's pre- and post- award procedures, interviewed responsible personnel, and tested sampled grant expenditures to determine whether they were allowable, allocable and reasonable per University policies and procedures, applicable laws and regulations, and award requirements. We also examined the College's time and effort reports to determine if its effort reporting process is adequate to comply with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Sample sizes and transactions selected for testing were determined on a judgmental basis.

As part of our audit, we reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. There were no prior audit recommendations related to the administration of HWCOC sponsored research grants.

BACKGROUND

In March 2006 Florida Board of Governors and Florida Legislature approved the creation of a medical school at Florida International University (FIU or University). HWCAM was established and subsequently received preliminary accreditation from the Liaison Committee on Medical Education (LCME), allowing the University to accept its first class in fall 2009. In June 2011, the College received provisional accreditation, and it is anticipated to receive full accreditation by February 2013.

The College supports FIU's research initiatives through two interrelated areas of basic and applied research, and a third area focused on improving health outcomes in the community, which includes reproduction and development; environmental science and toxicology; and evidence-based improved health outcomes. In addition, the College is pursuing basic research in infectious diseases and cancer biology as well as clinical research initiatives that are addressing new cancer diagnosis and treatment and novel therapies for children and adolescent behavioral issues.

The total amount received by the College in grants during FY 2011 totaled \$5,088,811, which represents a 27.02% increase from FY 2010 (\$4,006,314).¹ As of June 30, 2012 the College's total number of active projects, total awarded and funded amounts, total direct and indirect expenses, and total life-to-date expenses by department are depicted in the following table.

Department	Active Projects	Total Awards	Total Funded ²	Total Direct Expenses	Total Indirect Expenses ³	Total Life-To-Date Expenses
Cellular Biology & Pharmacology	2	\$ 2,420,377	\$ 1,245,530	\$ 608,683	\$ 263,799	\$ 872,482
Human & Molecular Genetics	3	1,919,148	1,919,148	1,047,474	408,342	1,455,816
Immunology	6	8,630,731	6,862,811	2,464,749	1,000,346	3,465,095
Molecular Microbiology & Infectious Diseases	2	1,433,058	1,433,058	878,936	302,695	1,181,631
Humanities, Health & Society	2	165,000	165,000	61,556	6,156	67,712
Surgery	2	351,874	351,874	220,566	-	220,566
Other ⁴	2	3,438,458	2,289,313	1,031,213	414,736	1,445,949
Total	19	\$18,358,646	\$14,266,734	\$6,313,177	\$2,396,074	\$8,709,251

¹ Source: FIU Division of Research Report to BOT in September 2011.

² Funds are released by a sponsor.

³ Indirect expenses commonly referred to as Facilities and Administrative (F&A) costs are calculated by the Division of Research based on indirect cost rate and automatically charged to a project.

⁴ These projects are managed by a center of College of Arts & Sciences, but the PI is part of HWCAM faculty members.

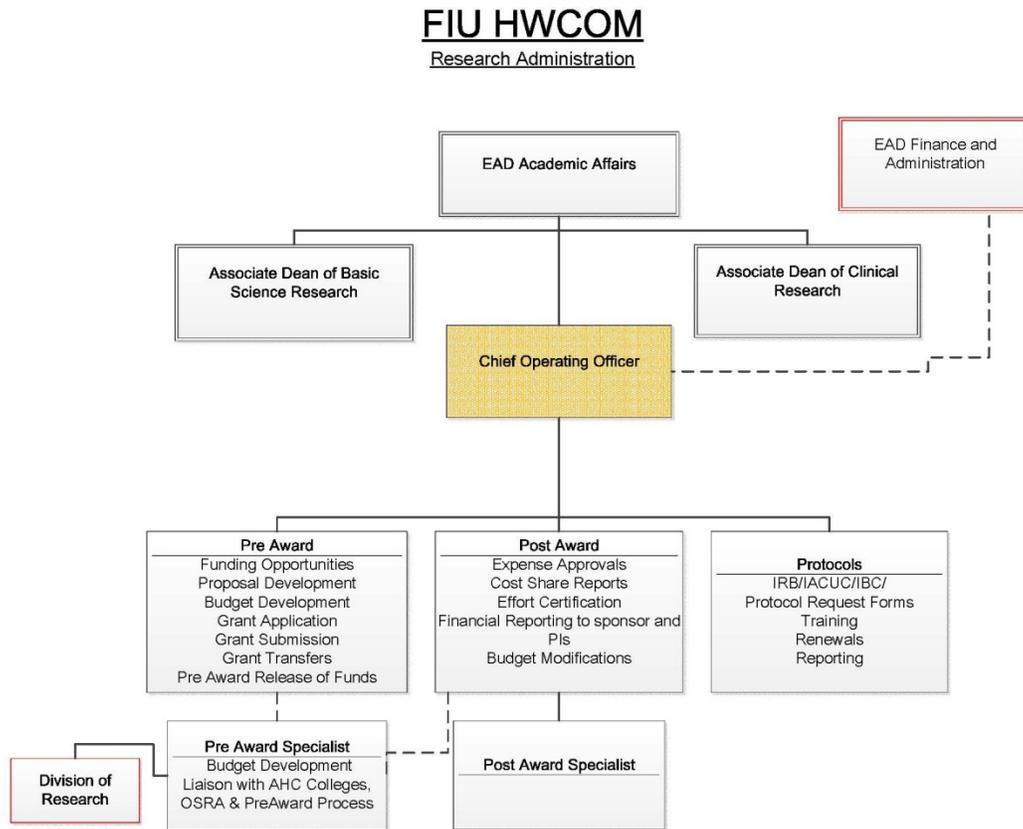
In addition to the projects listed previously, the College had 11 other grants that had financial transactions during the fiscal year 2011-2012 but their grant period ended prior to June 30, 2012, as follows:

Department	No. of Projects	Total Awarded/ Funded	Total Direct Expenses	Total Indirect Expenses	Total Life-To-Date Expenses
Cellular Biology & Pharmacology	2	357,233	251,066	106,167	357,233
Human & Molecular Genetics	3	690,838	496,471	194,252	690,723
Molecular Microbiology & Infectious Diseases	1	1,500	1,500	-	1,500
Humanities, Health & Society	2	46,500	33,321	4,773	38,094
Office of Medical Education	1	3,000	1,571	-	1,571
Psychiatry	1	16,279	11,909	3,096	15,005
Other ⁴	1	252,507	173,447	78,052	251,499
Total	11	\$1,367,857	\$969,285	\$386,340	\$1,355,625

With support from the University's Division of Research and HWCOR's own administrative staff, the College's faculty and research staff can devote more of their time on research and less on the administrative burdens associated with proposal preparation and submission, and the financial administration of their grants.

The College has an Associate Director of Research Programs in its Office of Academic Affairs who is actively involved in the pre-award process and an Assistant Director of Research Programs and a Grant Specialist in the College's Office of Finance & Administration take care of post-award procedures.

Since September 2012, HWCOR has restructured grants administration to report under one unit to increase efficiency. They provided us with the following chart:



FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the College had good controls and procedures and followed sound grants management practices for the administration of their sponsored research projects. The College’s internal controls over the post-award administration of its grants were particularly commendable.

Nevertheless, there was a weakness in internal controls over the pre-award area of grant proposals including the negotiation of the award with the sponsor that need to be strengthened. Our overall evaluation of internal controls for grant administration by the College is summarized below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		x	
Policy & Procedures Compliance	x		
Effect	x		
Information Risk	x		
External Risk	x		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-Compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Potential for damage	Severe risk of damage

Our observations are detailed below.

1. Pre-Award Controls

Obtaining grants is supposed to be a collaborative effort between the College and the University's Division of Research (DOR). However, the pre-award review process established by DOR was not always followed.

The "Pre-Award" period covers all activities relating to the proposal process up to the actual award. It includes: the proposal conceptualization; identification of a funding source; reviewing sponsor guidelines, legal, and regulatory requirements; preparation and submission of a written proposal; negotiation and execution of an agreement with the sponsor if the proposal is awarded by the sponsor.

The Principal Investigator (PI) is required to complete an Internal Clearance Form (ICF) for each proposal and route the ICF⁵ together with the complete proposal, to their respective chair/center director and dean for review and approval. The completed proposal package and all required signatories of the ICF must be timely submitted to DOR for review and approval prior to submission of the proposal to a prospective sponsor. This approval process is designed to ensure that the agreement entered into with the sponsor is in the best interest of the University. The ICF provides key data: the identity of the PI, the sponsor, submission deadline, facilities and administrative (F&A) rate, budget, and cost sharing information, etc.

To enable University researchers to focus more of their time and resources on the science during the proposal process and less on the administrative aspects associated with proposal preparations and submissions, the Division of Research has implemented an Electronic Internal Clearance Form (eICF)⁶ process to replace the previously used paper-based Internal Clearance Form.

The Division of Research required submittal of the ICF at least one week prior to the sponsor's proposal deadline (two weeks if the proposal is considered complex). Our review of 15 proposals disclosed that 3 instances where the PIs had already received an award from their sponsors prior to DOR review and approval. Consequently, DOR had to renegotiate with the sponsor from one of the grants, which required in-kind contribution from \$100,000 to \$200,000 as cost sharing and extending the grant period. In this instance, despite the required cost sharing the ICF prepared by the College did not include cost sharing information. Also, 18 payroll transfers had to be made later because the project started prior to establishment of project ID. We also noted that in one instance transferring a grant to FIU from another institution took more than 4.5

⁵ See Policy No. 2320.001, *Approvals Required on Internal Clearance Form Prior to Proposal Submission to Division of Research*. The Internal Clearance Form is also known as the Electronic Proposal Routing Approval Form.

⁶ The eICF allows the electronic routing of proposals throughout the entire approval process from the PI/Co-PIs, to the Chair, Dean and the Division of Research.

months after a PI was hired. This resulted in the PI's payroll transfers for the 10 pay periods.

Timely submission of the ICF and proposals enables DOR to thoroughly and properly review all aspects of the proposed or transferred grant prior to making a commitment, which may not be favorable to the University's interests or strategic initiatives. Reviewing the proposal afterwards places the University in the uncomfortable position of accepting potentially unfavorable terms and conditions such as a large amount of cost sharing, a lower facilities and administrative (F&A) rate, or having to cancel an agreement entirely.

The Associate Director of research program who is responsible for administering pre-award procedures at the College was not aware of the existence of the administrative guide related to research areas providing administrative guidance for its faculty and staff. Also, there is lack of coordination between and Pre-Award and Post-Award administration of the College. For example, the Post-Award section found out directly from a PI and not from the College's pre-award section that a new project had already started without the establishment of a project ID/budget.

Recommendations

The College's Sponsored Programs Administration Office should:	
1.1	Work more closely with the College's principal investigators to ensure that: (a) all grant proposals are submitted to the Division of Research prior to accepting an award; and (b) all grants to be transferred from other institutions to FIU are made in a timely manner.
1.2	Establish better coordination procedures with the College's Post-Award administration staff.

Management Response/Action Plan:

- 1.1 Since September 2012, FIU HWCOR has restructured grants administration to report under one unit to increase efficiency, communication and integration internally and also with DOR.

Procedures on pre-award process which includes a checklist will be communicated to the research faculty to remind them of all the steps that need to happen prior to a proposal being submitted. The transfer of grants from outside institutions will follow the same process.

Implementation date: Immediately

- 1.2 Since September 2012, FIU HWCOM has restructured grants administration to report under one unit to increase efficiency, communication and integration internally. Team meetings including PIs and administrators will be set up on an ongoing basis to ensure that both areas are better coordinated.

Implementation date: Immediately

2. Post-Award Controls

Overall, our audit disclosed that the College's grant related expenditures were allowable, allocable and reasonable in accordance with University policies and procedures, applicable laws and regulations, and award requirements.

The areas of the College's post-award controls reviewed were as follows:

Payroll Distribution/Effort Reporting

Generally, payroll and fringe benefits are a major expense for the sponsored project. The University is required to maintain a payroll distribution system that results in a reasonable allocation of salaries and wages charges to sponsored agreements.⁷ The payroll distribution system must be periodically reviewed to confirm the reasonableness of charges to sponsored projects. These confirmations are usually in the form of an activity report or payroll distribution report and must be signed either by the employees whose salary charges are being confirmed, or by "responsible persons with suitable means of verification that the work was performed." These signatures confirm that "the distribution of activity represents a reasonable estimate of the work performed," or that the payroll distribution is "reasonable in relation to work performed."

To comply with the Federal requirements, the University established Policy No. 2350.020, *Effort Reporting and Certification*, which requires maintaining after-the-fact activity records for payroll distribution purposes. Accordingly, employee effort reports are prepared subsequent to each semester (fall, spring and summer), and include all the sponsored projects that the employee is working on and the percentage effort towards each, regardless of whether or not the project paid for the employee's salary, such as cost-shared or contributed effort. For each employee, total effort must equal 100%, which account for all sponsored and/or institutional activities.

To streamline the effort reporting process, the University's Division of Research has implemented the Effort Certification and Reporting Technology system (ECRT). Each departmental effort coordinator has 30 days, after receiving effort reports from DOR, to review their employees' effort for accuracy, and then each employee receiving his or her effort report has additional 30 days to review and certify⁸ that the percentage listed on the report accurately reflected the work they performed during the reported period.

Our review indicated that salaries and benefits charged to four selected grants as of March 31, 2012 totaled \$835,649, representing approximately 58% of their total grant expenditures for the same period. To test for compliance with applicable University policies and procedures and Federal regulations, the employees whose salaries and

⁷ Section J.10 of OMB Circular A-21, *Cost Principles for Educational Institutions*.

⁸ Only the employee, PI, or other responsible official who has first-hand knowledge of the actual work performed should certify the effort report (electronic signature).

benefits charged to these four selected grants were reviewed. Also, the College's 37 effort reports for the summer 2011⁹ were reviewed.

The results of our review are as follows:

- Effort reports were certified by either respective College employees or PIs who have first-hand knowledge of the actual work performed.
- Effort reports were certified timely except for one. It delayed by one day from the deadline established by DOR, and appears to be an isolated case.
- Effort reports accurately captured all efforts for which the University compensated College employees in the payroll system.
- The total effort expended by each College employee was 100%, as required.
- The use of Institutional cost sharing to comply with NIH salary cap requirements was accurately captured in the PI's effort report.
- 100% effort charged to the sponsored projects by six selected researchers was accurately supported by their faculty appointment/assignment.
- Hours charged to the selected sponsored projects by two non-exempt employees were approved by their supervisor (PI) who has first-hand knowledge of the work performed by them.

Therefore, we conclude that the College's employee effort reports were: 1) timely certified; 2) properly supported by employee appointments/assignments; and 3) adequately captured cost-share commitments.

Financial Management Control

In order to ensure that grant expenses incurred by PIs and researchers are properly accounted for and recorded in the University's financial records (project ledgers), the College's Sponsored Programs Administration Office (SPA0) staff is assigned to review costs charged and reconcile the project ledgers on a monthly basis. Our review of 36 monthly project ledgers for 4 selected sponsored projects disclosed that SPA0 staff properly monitored budget to actual costs and reviewed costs charged to the projects for appropriateness and support. Also the project ledgers were properly and timely reconciled to ensure the proper posting of expenses and the timely discovery of any errors.

We also observed that the College established its operating manuals (administrative guide), including research areas to provide administrative guidance for its faculty and

⁹ The latest certified effort reports at the time of the audit.

staff. It provides them with a readily available reference source, guidance and training tool enumerating duties and responsibilities, and provides for the consistent application of FIU or the College's policies and procedures.

Monitoring Research Costs Other Than Payroll

Total operating expenditures, excluding payroll, for four selected grants as of March 31, 2012 were \$600,701, which includes \$417,002 as indirect expenses.¹⁰ These expenses were scanned and selected those material and/or high risk items such as travel, participant payments, administrative expenses, and lab chemicals for testing. Test results below.

- No expenses were charged to the grants outside their award period.
- Travel expenses were properly authorized, approved and monitored.
- Participant payments were properly supported.
- As required, F&A costs were not directly charged to three grants out of four grants selected and tested. For the fourth grant, office supplies were directly charged but they were allowed, since a Direct Charge Exemption Form was submitted by the College and approved by DOR.
- Use of University credit cards was properly monitored.

¹⁰ Per OMB Circular A-21 Section F.6.b, *Departmental Administration Expenditures*, Facilities and Administrative (F&A) costs are salaries of administrative and clerical staff and items such as office supplies, postage, local telephone costs, and memberships and should normally be treated as indirect costs. F&A costs are calculated by DOR based on indirect cost rate and automatically charged to a sponsored project. Therefore, indirect expenses should not be directly charged to a grant unless a Direct Exemption Form is approved by DOR.

Cost Transfers

In order to comply with Federal regulations, all cost transfers to sponsored projects must be timely, appropriate, consistently treated and adequately documented. University Policy No. 2350.010, *Cost and Payroll Transfers on Sponsored Projects*, states that cost transfers, including payroll should be completed within 90 days of the error's discovery, and every effort should be made to effectuate the transfer promptly after the original charge first appears on the project ID ledger.

Our review of 47 cost transfers, totaling \$5,910 made by the College disclosed that all the transfers were proper, timely, and adequately supported. These transfers included 18 payroll related transfers. But it was not necessary to revise effort certifications since they were made timely.

Tracking of Cost Sharing

One of the College's four selected sponsored projects tested required \$200,000 cost sharing. To support its cost sharing commitments, the College's Sponsored Programs Administration Office prepared a Cost Sharing/Matching Cost Sheets, developed by Division of Research. The College applied the cost-shared effort percentages to the employees' payroll cost charged to their department (University funds). Our review of the Cost Sharing/Matching Cost Sheets disclosed that the College was properly tracking the required cost sharing obligation and maintained adequate support documents.

Monitoring of Federally-Funded Property

Pursuant to OMB Circular A-110 Section .34(a), "Title to equipment acquired by a recipient with Federal funds shall vest in the recipient, subject to the conditions of this section." However, particular sponsor guidelines or the award documentation itself may provide that title shall vest in the Federal government, in which case such guidelines or award documentation shall prevail and the equipment shall be handled as owned by the Federal government. Therefore, the University established property control procedures that title to federally-owned non-expendable property shall remain vested in the Federal government and wear a Federal tag. Upon receipt of federally-owned equipment at FIU, Asset Management of the Controller's Office shall affix a serially numbered decal on such equipment identifying ownership of the equipment in the federal government.

Our review of the University property records for three federally-funded projects disclosed that nine assets, with a total cost of \$83,111, were properly identified as federally-owned equipment. However, three assets, with a total cost of \$49,284 were not assigned a Federal property tag.

Close-out Controls

Federal closeout procedures states, "Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. The Federal awarding agency may approve extensions when requested by the recipient."¹¹ To ensure uniform and complete closeout of all sponsored projects, the University established a policy, which requires all projects be promptly closed out at the end of the project. Projects are considered completed on the earlier of when all work under the project is finished, or on the date of the award document provides as the end date of the project.

As of June 30, 2012, the College had 25 projects, totaling \$5.5 million that were inactive and their project period ended. We reviewed these projects and noted that all of the projects were closed except for three projects. The project ending date for two of the three projects was May 31, 2012, which has sufficient time to be closed out at the time we reviewed. For the remaining project, the ending date was August 31, 2010, which was already closed out with the sponsor. However, it was not closed out internally due to delays in payroll transfers and other expenses that were posted in the ledger twice. We were informed that this project was managed by DOR before the College started to manage in April 2010 and identified the PI's salaries charged to the project need to be adjusted. Subsequent to our inquiry, the project was closed out after the project ledger was corrected.

Recommendations

The College should:	
2.1	Work with Asset Management to ensure that all capital assets purchased with Federal funds have a Federal tag.
2.2	Continue to identify and resolve issues, which otherwise delay the closeout process, in order to facilitate project close-out procedures.

¹¹ OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart D (.71)

Management Response/Action Plan:

- 2.1 The Procurement Specialist at HWCOP will work with Post Award and Asset Management to ensure that active capital assets purchased with federal funds are properly tagged.

Implementation date: November 2012

- 2.2 Procedures are in place with a checklist for financial close of projects. The closeout delay mentioned is an isolated case in which delays were encountered due to systematic limit of number of lines per person on payroll transfers per pay period. At this time all HWCOP projects are up to date which will allow for timely close outs.

Implementation date: Immediately