

August 31, 2020

Delivered via Email

The House Committee on Higher Education
C/o The Honorable Chris Turner
Chair – House Committee on Higher Education
Texas House of Representatives
P.O. Box 2910
Austin, Texas 78768-2910

RE: Interim Charge 5

Dear Chairman Turner and Members of the House Committee on Higher Education:

On August 3, 2020 the House Committee on Higher Education (the “Committee”) requested written submissions from the State Auditor’s Office (“SAO”) and from each institution of higher education regarding all audits (relevant to the Committee’s jurisdiction) resulting in recommendations by the SAO. The Committee also asked for information regarding the status of institutions’ responses to the SAO’s recommendations.

The University of Texas at Austin (“UT Austin”) has information that is responsive to this request, and would respectfully submit this letter in response. In addition to these responses, and for your convenience, UT Austin also attaches to this letter the relevant information from the SAO audits, and UT Austin’s responses thereto.

The SAO reported on five UT Austin audit findings in the State of Texas Single Audit for the fiscal year ended August 31, 2019. The purpose of this single audit was to ensure that organizations receiving federal grants used these funds in compliance with the federal government’s requirements and to issue an opinion on the financial statements for the State of Texas. Of the five recommendations, UT Austin has fully implemented or expects to fully implement four by the end of August 2020. UT Austin continues to implement the remaining recommendation.

First, with regard to Reference No. 2018-109: Equipment and Real Property Management (pages 380-382), a recipient’s property records for equipment acquired with federal funds must be maintained accurately and include certain information. A recipient must also conduct a physical inventory of equipment and reconcile the results with its property records at least every two years; adequate safeguards must be in place to prevent loss, damage or theft of equipment and any loss, damage or theft must be investigated.

The SAO found that UT Austin did not maintain accurate property records for 18 of 77 (23%) equipment items tested. The SAO recommended that UT Austin should (i) strengthen controls to ensure that it updates and maintains accurate and complete property records, and (ii) strengthen controls over its physical inventory, and follow up on equipment items identified as missing during its physical inventory. UT Austin concurred with this finding. Inventory Services has continued to educate individual departments on the importance of maintaining accurate

property records by updating location information and other identifying information periodically. These measures have been part of the business process review and re-engineering project that was initiated by university leadership in 2018. Although the business process review project as a whole is still in its planning phase, Inventory Services has been working with the inventory contacts from departments to provide training and raise awareness of inventory compliance. Inventory Services continues to commit to improve and strengthen controls over inventory management. The business process review and re-engineering project continues to be the basis to address the necessary changes to the Handbook of Business Procedures, the intention of which is to provide clarity on inventory compliance.

Also, Inventory Services has continued to stress the importance of completing the annual physical inventory to all departments. The annual physical certification completion rate was 100% in 2019. Inventory Services continuously works closely with individual departments to raise awareness about safe keeping of equipment and records in order to reduce the number of missing equipment. Ongoing efforts by Inventory Services along with the business process re-engineering project mentioned previously will address the findings in its entirety.

Second, with respect to Finding Reference Number 2018-110: Financial Reporting (pages 383-384), recipients of certain federal dollars are required to report certain financial information to ensure effective monitoring of these federal awards. The SAO found that on 4 of 60 reports tested (7%), UT Austin incorrectly reported one or more of the following report elements: indirect expenses, including the indirect cost rate, the direct cost base, and the indirect amount charged; federal share of unliquidated obligations; or expense detail to support the amount of funds requested for reimbursement. SAO recommended that UT Austin strengthen certain controls to ensure that the applicable financial reports UT Austin submits are complete and accurate. UT Austin agreed with this recommendation and a corrective action plan has been implemented.

Third, regarding Finding Reference Number 2018-111: Subrecipient Monitoring (385-387), certain pass-through entities for federal grants (such as UT Austin) must verify that a subrecipient of those grants that spends in excess of \$750,000 in federal awards obtains a single audit. The SAO determined that for 16 (33 percent) of 48 subrecipients tested, UT Austin did not verify that the subrecipient of certain federal funds had obtained a single audit, or that the subrecipient was exempt from that requirement. The SAO recommended that UT Austin strengthen controls to ensure that UT Austin verifies that certain subrecipients for these funds obtain single audits, as required. UT Austin agreed with this recommendation. As of July 2020, the audit collection process was being redesigned and a more reliable and accurate source for sub-awardee data had been identified that will allow for easier tracking of sub-awardee compliance with the single audit requirements. Audit collection has been centralized within the Office of Sponsored Projects, which has included developing an audit repository. Training was also provided to departments with an expanded role in the subcontracting process. Due to COVID-19 some of the implementation of the corrective actions has been delayed. However, the Office of Sponsored Projects anticipates the Sub-awardee database and the updated procedures will be completed by the end of August 2020.

Fourth, with regard to Reference No. 2017-143: Special tests and Provisions – Enrollment Reporting (page 389-391), UT Austin uses the services of the National Student Clearinghouse

(“NSC”) to report status changes to the National Student Loan Data System (“NSLDS”). Under this arrangement, UT Austin reports all students enrolled and their status to the NSC. Although UT Austin uses the NSC, UT Austin is still responsible for submitting timely, accurate and complete responses to roster files and to maintain proper documentation.

The SAO recommended that UT Austin should accurately report status changes and effective dates to the NSLDS, and establish and implement a monitoring process to ensure that the status changes it reports to the NSC are accurately reported to NSLDS. This recommendation was made in response to a finding that for 2 (3 percent) of 60 students tested with enrollment status changes, the University did not report the status change to NSLDS. UT Austin agreed with this recommendation, and to address this issue, UT Austin made additional modifications to its business and technical processes to identify and report the final date of enrollment for all students identified in the unofficial withdrawal process, who receive Federal Title IV financial aid each semester, to the NSC and NSLDS. Upon completion of these updates, UT Austin verified these students’ enrollment statuses and effective dates were present and accurate in the NSLDS database. Therefore, UT Austin’s corrective action plan on this recommendation has been implemented.

Finally, with respect to SAO Report No. 20-555, Reference No. 19-555-01 (Chapter 4-A), each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (“SEFA”) and submit it to the Comptroller of Public Accounts. These expenditures are to be presented in the SEFA on the same accounting basis as each state entity’s fund financial statement. The SAO determined that UT improperly classified a total of \$2.3 million in expenditures (out of over \$14 million). The SAO recommended that UT Austin strengthen its SEFA preparation and review its process to help ensure that it prepares its SEFA correctly. The SAO further recommended that these improved processes should include ensuring that UT Austin reports the correct Catalog of Federal Domestic Assistance (“CFDAs”) for each federal award and classifies expenditures in the appropriate clusters. UT Austin agreed with this recommendation. UT Austin has revised existing training documentation to include staff training in areas related to the proper classification of CFDA programs and the research and development cluster specifically. Moreover, the Office of Sponsored Projects established weekly Annual Financial Report meetings to address Sponsored Projects Award Administration tasks related to the SEFA beginning in July 2020. These meetings include the preparation and review of a draft SEFA to ensure CFDA programs have been correctly classified. Any necessary adjustments will be made during this process. Therefore, UT Austin’s corrective action plan on this recommendation has been implemented.

Thank you for the opportunity to respond to the Committee’s request for information pursuant to this Interim Charge. If you need anything further, please do not hesitate to contact me.

Very truly yours,

/s/ Jay Dyer

Jay Dyer

The University of Texas at Austin