



TEXAS A&M RESEARCH FOUNDATION

Serving Those Who Provide The Future

Memorandum

December 3, 2008

To the Audit Committee: Edmond S. Solymosy, Chair
H. Jarrell Gibbs
Jack N. McCrary
Robert Smith, III
B. B. Tuley

Subject: Management Response to Ingram, Wallis & Company
Audit Letter Dated December 1, 2008

Finding: Noncompliance with Matching Requirements

Matching or cost sharing includes requirements to provide contributions (usually nonfederal) of a specified amount or percentage to match federal or state awards. Matching may be in the form of allowable costs incurred or in-kind contributions.

During review of this compliance requirement, it was noted that on some projects on which salaries and the related costs were used as the match that incorrect fringe benefit rates, insurance rates and indirect cost rates were used. Other instances were noted where the cost sharing was incorrectly computed due to the use of incorrect monthly expenses.

We recommend that the information used to calculate cost sharing from researchers be compared to the information provided by the System and its members to insure the correct rates are used. Expenditures should also be reviewed to insure that the correct costs are used in the calculation of cost sharing amounts.

Management Response: We concur with the finding. The findings have been reviewed with management and staff. Corrective action has been taken and new procedures have already been implemented that provide for cross verification on calculations and supporting documentation.

Finding: Noncompliance with Suspension & Debarment Requirements

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods

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and services awarded under a nonprocurement transaction (i.e. grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e. subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPSL) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

During review of this compliance requirement, it was noted that the Foundation failed to properly verify that contracting parties were not suspended or debarred. It was noted that debarment certification forms were included in the procurement files but were not signed by the vendors. Other instances were noted in which a comment was written in the procurement file that suspension and debarment had been checked but there was no verifiable proof of this. In addition, it was noted that in some cases the Foundation verified suspension and debarment for covered transactions that equaled or exceeded \$30,000 rather than those that equaled or exceeded \$25,000.

We recommend that the Foundation verify suspension and debarment for all required covered transactions.

Management Response: We concur with the auditors in that the verifications were not adequately documented. The Research Foundation has used the EPSL system noted by the auditors since March 2008. The findings have been reviewed with management and staff. Corrective action has been taken and new procedures to formalize internal documentation and change signature authorities have already been implemented. There appears to be a difference in the federal regulations. OMB Circular A-133 refers to a \$25,000 threshold for verification, but the Federal Acquisition Regulation (FAR52.209-6) refers to a \$30,000 threshold for verification. Management will follow up to determine if the \$30,000 threshold can be used. In the meantime, we will use the \$25,000 threshold. We do note that none of the vendors identified by the auditors were suspended or debarred.

Finding: Noncompliance with Subrecipient Monitoring Requirements

A pass-through entity is responsible for monitoring the subrecipient's use of Federal and State awards. Monitoring activities normally occur through-out the year. These activities include reviewing financial and performance reports submitted by the subrecipient and other means to provide reasonable assurance that the subrecipient administers Federal and State awards in compliance with laws, regulations, and the provisions of contracts and grant agreements and that performance goals are achieved.

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During review of this compliance requirement, it was noted that the Foundation did not obtain reports noted in the subrecipient agreement that were due by the subrecipient to the Foundation. The reports noted were delinquent.

We recommend that the Foundation ensure that subrecipient reports are submitted to the Foundation for review as required by the subrecipient agreement.


Management Response: We concur with the finding. The reports have not been received. The Research Foundation has a notification system in place to advise subrecipients about when and what type of report is due. In the four instances identified by the auditors initial notices were sent. According to the internal file each subrecipient has been contacted on three subsequent occasions. The finding has been reviewed with management and staff. We will examine the process to determine if changes are needed.

While it is our objective to have no audit findings, we are pleased to note that these findings have not placed our awards at risk. The auditors did not identify any questioned or unallowable costs. The findings targeted areas where internal controls can be strengthened through process changes and staff training.

Management is keenly aware of our responsibility to safeguard the assets of the organization. It is a primary objective of the daily operations and long range plans. Assessment of our systems and procedures remains an ongoing process. Actions are taken to ascertain that all necessary and cost-effective measures are carried out to fulfill the fiduciary responsibilities.



Leo J. Paterra, President
and Chief Executive Officer



Linda Woodman, Senior Vice
President and Chief Financial Officer

cc: Ingram, Wallis, & Company
Verma Elliott, State Auditor's Office
Steve Garrett, TAMRF
Verna Smith, TAMRF