

## 17-117 Core Labs

We have completed our audit of Core Labs. This audit was performed at the request of the UTHealth Audit Committee and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

### BACKGROUND

UTHealth encourages the development of collaborative relationships among faculty on research and academic interests related to the missions of the university. Core Lab is a generic term used to refer to Research Service Center (RCS), which is an organizational unit that provides research related services or products to users principally within the university community. RSCs recover their cost of operation through charges to users. The Code of Federal Register Part 220 defines Specialized Service Facilities (SSF) as institutional services involving the use of highly complex or specialized facilities. UTHealth has further defined an SSF as an RSC with annual operating revenue that exceeds \$1 million. The establishment of RSCs must follow the criteria and procedures set forth by the Office of the Executive Vice President and Chief Academic Officer through HOOP 209.

### OBJECTIVES

The objective of this audit was to perform an operational review of the efficiency and effectiveness of Core Labs.

### SCOPE PERIOD

The scope period was from July 1, 2016 to June 30, 2017

### METHODOLOGY

The following but not limited procedures were performed:

- Selected the total population of 18 RCSs and verified an updated business plan including the previous fiscal year history, current fiscal year projection and a two (2) year forecast was provided during the annual budget process.
- Determined whether each RSC annual operating revenues is at least \$30,000, but no more than \$1 million and recovers its annual operating costs when setting recharge fees on a break-even basis over two fiscal years.
- Reviewed and compared the charge rates to verify the RSC does not discriminate against any internal group of RSC users.
- Verified the RSC charges external users a higher rate than to internal users for similar services. For pricing at the internal rate for users of other academic institutions, we also verified a formal, executed agreement exists between UTHealth and the other institution(s).
- Obtained the list of personnel working at RSCs and selected a sample to verify salary and wage amounts recorded in PeopleSoft Human Capital Management (HCM) match those recorded in the business plan.

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- Obtained evidence to support attestation of revenue and expenses along with reconciliations were submitted by both the Center for Laboratory Animal Medicine and Care (CLAMC) and the Clinical Research Unit (CRU) to the Associate Director of Finance on a semiannual basis.
- Selected a sample of revenue transactions from CLAMC. For each invoice, we obtained copy of the manual per diem census sheet and evidence of Executive Director's approval for the chartfields. We also compared the approved amount with the amount recorded in FMS.

**AUDIT RESULTS**

A&AS identified areas of improvement related to:

- Compliance with qualifying criteria for the Development and Administration of RCS.
- CLAMC Inventory Tracking System and Cost Accounting review.
- RSCs Oversight Committee, Salary and Wages review.

**NUMBER OF PRIORITY & HIGH FINDINGS REPORTED TO UT SYSTEM**

None

We would like to thank the staff and management within the Office of the Executive Vice President and Chief Academic Officer, the Office of the Senior Vice President Finance and Business Services and individual RCSs who assisted us during our review.



Nat Gruesen, MBA, CIA, CFE, CISA  
Senior Audit Manager,

**MAPPING TO FY 2017 RISK ASSESSMENT**

<b>Risk (Rating)</b>	R.71 Core Facilities - are business plans and financial models sustainable (High) R.89 Core Labs: is the financial management plan being filed each year and are the plans appropriate/in keeping with good business practices? (High)
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**AUDITING & ADVISORY SERVICES ENGAGEMENT TEAM**

<b>Audit Manager</b>	Nat Gruesen, Senior Audit Manager, MBA, CIA, CFE, CISA
<b>Auditor Assigned</b>	Diarra Boye, Senior Auditor, CIA
<b>End of Fieldwork Date</b>	01/19/2018
<b>Issue Date</b>	02/15/2018

**Copies to:**

Audit Committee  
Michael Tramonte  
Eric Solberg

Dr. Michael Blackburn  
Dr. Mary Robinson  
Amy L. Hazen, PhD

<p><b>Issue #1</b></p>	<p>The UTHealth Development and Administration of RSCs policy qualifying criteria states:</p> <ul style="list-style-type: none"> <li>➤ RSC annual operating revenues must be at least \$30,000, but no more than \$1million.</li> <li>➤ An updated business plan including the previous fiscal year history, current fiscal year projection and a two (2) year forecast must be provided during the annual budget process in a timeframe defined by Budget and Financial Reporting and/or related school whichever being the sooner date.</li> <li>➤ The Dean of the School or Chair/Director of the Department/Institute in which the RSC is established must designate appropriate funds each fiscal year to pay for annual operating losses and unallowable costs.</li> <li>➤ A RSC with annual operating revenue that exceeds \$1 million, called SSF, may require its business plan approved by the UTHealth federal cognizant agency in addition to local requirements. SSF proposals require review and approval by the Office of Research Affairs (OARA) and the Office of Finance and Business Services (FBS).</li> </ul> <p>A&amp;AS obtain the list of active RSCs recognized by (OARA) and compared it with the list of RSCs recorded on the PeopleSoft FMS tree manager. We obtained and reviewed each RCS’s business plan to determine whether it meets the (RSCs) policy qualifying criteria. We also requested a copy of the reviewed and approved business plan for the one SSF.</p> <ul style="list-style-type: none"> <li>➤ Of the 23 RSCs recorded in FMS: <ul style="list-style-type: none"> <li>- 4 have not provided a business plan to FBS and are not recorded nor monitored by OARA and</li> <li>- 1 RCS was reclassified to a designated fund.</li> </ul> </li> <li>➤ Of the remaining 18 RCSs, 6 had operating revenue under \$30,000</li> <li>➤ No evidence was available to demonstrate appropriate funds were designated each fiscal year to pay for annual operating losses and unallowable costs by the Dean of the School or Chair/Director of the Department/Institute in which each RSC is established.</li> </ul> <p>Additionally, no evidence was available to demonstrate the SSF business plan was reviewed and approved by OARA and FBS.</p>
<p><b>Recommendation #1</b></p>	<p>We recommend OARA and FBS review federal and state guidelines and industry best practices and perform a comparison against current processes in place. Once completed, Institutional policies, procedures and practices should be updated to comply with the findings of this review</p>
<p><b>Rating</b></p>	<p>Medium</p>
<p><b>Management Response</b></p>	<p>a- We will revise the HOOP Policy 209 - Development and Administration of Research Service Centers to include specific guidelines for research service centers with annual operating budgets below \$30,000.</p>

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	<ul style="list-style-type: none"> <li>b- We will actively monitor all Funds with RSC code in FMS tree manager or reclassify those not considered RSCs.</li> <li>c- We will work closely with each existing/approved research service center, department administration, department chair, and/or Dean to ensure that there are adequate designated fund(s) available to cover possible deficits in future operating budgets. All newly created Research Service Centers are required to provide this information at the time of development and prior to approval of a new research service center.</li> <li>d- The Center for Laboratory Animal Medicine and Care (CLAMC) is currently the only Specialized Research Facility (SSF) at UTHealth. OARA staff, in partnership with Finance and Business Services, will establish appropriate documentation of the review and approval process of the business plan and annual budget for CLAMC. This documentation will include a new form to be co-signed by the Executive Director of CLAMC and with the approval of the EVP &amp; Chief Academic Officer.</li> </ul>
<p><b>Responsible Party</b></p>	<p>Amy Hazen, Associate Director of Shared Research Resources Tracy Upton, Associate Director of Finance</p>
<p><b>Implementation Date</b></p>	<p>9/15/2018</p>

<p><b>Issue #2</b></p>	<p><u>CLAMC procedures states:</u></p> <ul style="list-style-type: none"> <li>➤ CLAMC’s Attendant creates a per diem sheet for each protocol/ project number using the color-coded system to identify the project number on the cage card. At the end of the month, the Supervisor submits all manual per diem census sheets to the Billing Specialist who will create invoices for each protocol/ project number.</li> <li>➤ Cost accounting is reviewed annually by the Executive Director after all data is collected. Monthly income is monitored by category to monitor cost recovery against total budget.</li> </ul> <p>We performed a walkthrough of CLAMC’s main location to verify each cage card has a project number and a color-coded system. While on site, we randomly selected cages and compared with related census sheet for consistency. We also requested copy of husbandry inventory information to compare with inventory on hand and were informed the center does not track daily husbandry inventory. Additionally, we requested evidence to support the CLAMC Executive Director has reviewed annually the cost accounting spreadsheet.</p> <ul style="list-style-type: none"> <li>➤ For each of the four rooms we visited, the cage count on the census sheet did not match the number of cages in the room.</li> <li>➤ CLAMC does not have an inventory system that allows tracking of cages and/or husbandry inventory.</li> <li>➤ There is no evidence to support CLAMC fees/cost accounting review</li> </ul>
<p><b>Recommendation #2</b></p>	<p>We recommend CLAMC work with OARA and FBS to develop and maintain:</p> <ul style="list-style-type: none"> <li>a- A tracking system for cages,</li> <li>b- An inventory system to record husbandry supplies, and</li> <li>c- A formal process to ensure supporting documentation is maintained to evidence cost accounting is reviewed annually by the Executive Director.</li> </ul>
<p><b>Rating</b></p>	<p>Medium</p>
<p><b>Management Response</b></p>	<ul style="list-style-type: none"> <li>a- On September 18, 2017, UHealth executed a contract for a computer application to allow for electronic census taking, cage management, and billing. Details on the cages from creation to deactivation in the census will be available within the application via audit trail. The go-live date of the application will be December 1, 2018.</li> <li>b- Effective March 1, 2018, CLAMC will institute a tracking system for supplies. Items will be either directly checked out by the team leader or by the room technicians. The Cage Wash team leader or designee will maintain the inventory of supplies via a master spreadsheet, to which monthly inventory counts will be transferred. Discrepancies between documented supply removal and actual inventory will be investigated as soon as possible.</li> <li>c- A Cost Accounting Assessment Report was developed to ensure documentation of the review of the End of Fiscal Year Cost Accounting by the Executive Director. A conclusion statement of</li> </ul>

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	the cost accounting and a place to capture appropriate signatures is included. The form will be formally implemented for the FY 2018 Cost Accounting review. OARA staff will review the annual cost accounting assessment report.
<b>Responsible Party</b>	Dr. Mary Robinson, Executive Director and Associate Professor, CLAMC Amy Hazen, Associate Director of Shared Research Resources Tracy Upton, Associate Director of Finance
<b>Implementation Date</b>	01/15/2019

<p><b>Issue #3</b></p>	<p>The UTHealth Development and Administration of RSCs policy qualifying criteria states:</p> <ul style="list-style-type: none"> <li>➤ Business plan review: each RSCs should have established an Oversight Committee (to include major users of the RSC) to oversee the management of the RSC and to address issues of service quality and obtain evidence to support the Oversight Committee meets annually to discuss pricing and changes in services.</li> <li>➤ Salaries and wages of all personnel directly related to the RSC: If an individual works on more than one activity, the salary costs should be allocated to the activities based on the percent of effort that is dedicated to each activity.</li> </ul> <p>A&amp;AS inquired with RSCs in our sample and no evidence was available to demonstrate each RSC had an established Oversight Committee to oversee the management of the RSC and to address issues of service quality, pricing and changes in services.</p> <p>For each employee identified from our sample, we also used PeopleSoft HCM to verify salary and wage (with percentage of effort) amounts match those recorded in the business plan.</p> <ul style="list-style-type: none"> <li>➤ Two out of 10 employees (20%) had Salary and wage (with percentage of effort) amounts that were not less than or equal to those recorded in the business plan were.</li> <li>➤ One out of 10 employees (10%) had percentage of fringe benefits that did not match percentage effort reported.</li> </ul>
<p><b>Recommendation #3</b></p>	<p>We recommend OARA and FBS either modify the Development and Administration of RSC policy or :</p> <ul style="list-style-type: none"> <li>a- Enforce the requirement for RSC to establish an Oversight Committee.</li> <li>b- Work with RCSs to ensure salary and wage (with percentage of effort) amounts match those recorded in the business plans. Any major change to the salaries as recorded on the approved business plan should be submitted to OARA and FBS for review.</li> </ul>
<p><b>Rating</b></p>	<p>Medium</p>
<p><b>Management Response</b></p>	<p>OARA staff will work with:</p> <ul style="list-style-type: none"> <li>a- Each RSC to confirm they have scheduled an oversight committee meeting annually. A member of the OARA will be included in this meeting and will require documentation/minutes of these meetings to be submitted with the annual report.</li> <li>b- FBS to collaborate on budget cycle deadlines both centrally and within the McGovern Medical School in order to cross-reference the submitted RSC business plans with the annual budget load in PeopleSoft FMS and HCM. There will be three periods of assessment and review: 1) the period immediately following budget loads in PeopleSoft per FBS deadlines, 2) the period immediately following the lock-out of 9/1 panels in PeopleSoft</li> </ul>

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	HCM (to verify salaries are appropriate), and 3) the period after budgets are live starting 9/1. These time-periods have been established in collaboration with FBS, and coincide with other FBS review procedures.
<b>Responsible Party</b>	Amy Hazen, Associate Director of Shared Research Resources Tracy Upton, Associate Director of Finance
<b>Implementation Date</b>	10/15/2018