



Internal Audit Report

Genomics Institute Research Accounting

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Table of Contents

- I. EXECUTIVE SUMMARY 2

- II. INTRODUCTION
 - Purpose 3
 - Background..... 3
 - Scope 4

- III. Current Status 6

- IV. Conclusion 6

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services was asked to look into a concern that the National Institute of Health (NIH) had with a research consortium led by UC Santa Cruz's Genomics Institute and funded under an Other Transaction Agreement.

Although the issue was described to us initially as a research accounting problem we learned that this was not the case. The problem was with how the Genomics Institute was filling out a monthly progress report template provided by the NIH, but without instructions on how they wanted it filled out.

Our Office of Sponsored Projects director, who had signed recent modifications to the original research agreement for UC Santa Cruz, worked with the officer who signed agreement modifications for the NIH to assure him that we were managing the consortium effectively, and learned how NIH wanted the progress report filled out.

The NIH officer was pleased with our campus response to their concerns and the progress reports that the Genomics Institute is now providing them. The NIH has extended the duration of the research project and increased its funding.

The NIH regards this issue now closed, and we did not see the need for further management corrective actions. More details are available in the following report.

II. INTRODUCTION

Purpose

The purpose of this review was to examine a concern identified by the National Institute of Health in regards to UCSC's financial oversight of an Other Transaction Agreement awarded to and led by the Genomics Institute.

Background

Agreement OT3 HL142481 PATEN, BENEDICT is an "Other Transaction Agreement"¹ between UC Santa Cruz and the National Heart, Lung, and Blood Institute (NHLBI) of the National Institutes of Health (NIH).

The Agreement came into effect 9/28/2017 initially for three years, but could be extended depending on fulfillment of the statement of objectives and milestones (SOM), and NIH's availability of funds. The original agreement was budgeted for \$5,850,000 for the first year of the agreement. Due to award modifications (11 modifications so far) the total NIH funds authorized up to September 2021 are \$24,907,065². UCSC has continued to fulfill the SOM and stay within budget up to our review.

While UCSC is considered the awardee and is the entity responsible for the administrative and programmatic activities described in the Agreement, there are five subawardees: Broad Institute, University of Chicago, Vanderbilt University, University of Michigan, and the University of Washington. UCSC, through the Genomic Institute (GI), has been responsible for the management of this research consortium.

On September 27, 2019, the NIH issued an Other Transaction Agreement (OTA) modification that included requirements for UCSC to submit monthly progress reports using an OTA reporting template that included both financial estimates, such as expenses incurred during the reporting month, as well as a summary of progress on research. The first progress report using the new template was to be submitted to NIH on or by November 15, 2019. NIH did not provide any guidance on how to fill out the new template. The GI team did not initially fill in the fields on the report template that report on Agreement funding and expenses. Instead, a campus InfoView financial report (UCPath My Grant Activity At A Glance Balance Inception to Date report) was attached to the template and sent to NIH. This InfoView report included the Agreement budget, expenses during the reporting period, liens (open purchase orders), and balances. NIH requested the GI to start filling in the template fields for the March progress report and thereafter. The template funding-related fields are: Total NIH Funds Awarded, Funds Restricted, Funds Unrestricted, Reporting Period Expenses, Cumulative Expenses, and Unobligated Balance.

¹ Other transactions (OT) are transactions that government agencies, such as NIH and their institutes, centers or offices (ICO), such as NHLBI, enter into with third parties that are other than contracts, grants or cooperative agreements. Consequently, they are not subject to FAR regulations. While OTs come with fewer restrictions than other types of awards, they still must be awarded in a manner that ensures proper stewardship of federal funds and comply with requirements applicable to all federal funding (regardless of funding mechanism). OTs offer greater flexibility for NIH to develop programs that meet the rapidly advancing needs of biomedical research. ICOs are encouraged to think creatively when designing programs to take advantage of this flexibility.

² This amount authorized is divided into two categories: unrestricted funds that can be spent right away, and restricted funds that can be made available subject to NHLBI requirements.

Invoices from subawardees were used to calculate their reporting period expenses. We viewed the March, April and May reports, and saw that they accurately reflected information from our campus General Ledger.

However, due to certain events, GI did not submit the March, April and May progress reports timely to NIH, which is by the 15th of the following month for each report. Further, the April report showed expenditures over \$1.6 million. The NHLMI team expected expenditures to be at \$472,608, a “burn rate” they calculated from a different report they requested from GI on cumulative expenditures 9/28/2017 – 4/15/2021. This report included estimates of average projected monthly expenses self-reported by UCSC and the subawardees still active at the time. Furthermore, the June progress report showed another \$1 million in expenses. This alarmed the NHLMI team.

The reasons for the higher expenses were:

- The University of Chicago did not send any invoices from September 2020 to April 2021. In April, UCSC received three invoices, totaling \$1.1 million, which significantly increased the monthly expenditure amount in the report and created a discrepancy between the expected burn rate and the actual expenses.
- The Broad Institute sent a \$720K invoice in June while its monthly burn rate was reported at \$101K.

We thought an obvious solution to these problems would be to continue to fill out the progress report with information from the General Ledger; submit reports timely; and request sub-awardees to submit invoices monthly and monitor their progress.

The NIH OTA officer contacted our director of the Office of Sponsored Projects (OSP), the signer of recent OTA modifications for UCSC, to demand an explanation of why monthly expenses were so different from their expected burn rate. Our OSP director was successful in reassuring the OTA officer that UCSC was managing the Agreement appropriately.

Their correspondence that we reviewed indicated that the monthly progress report template might not be adequate to tell the whole story of estimated monthly financial activity, especially as it did not provide individual burn rates of UCSC and subawardees, nor did it include UCSC allocations to subawardees. Further, NIH introduced an additional reporting element, namely costs per feature being worked on, which would require additional effort, and would be added as a required deliverable to the next OTA modification.

Scope

The scope of this review addressed one research agreement compliance with the National Institute of Health’s requirements regarding financial reporting under OTA’s, which unlike other federal funding mechanisms, are not governed by OMB Uniform Guidance. We conducted this review by interviewing Genomics Institute management, Office of Research Management, particularly the director of the Office of Sponsored Projects, and examining related documents that included:

- Historical documents from the Cayuse System
- The OTA in question and a couple recent modifications
- Monthly progress reports from March through August 2021
- Email correspondence especially between the OTA officer and the OSP director
- NIH Guidelines on Other Transactions

- A Health and Human Services Office of Inspector General Audit Report on NHLBI Compliance with Other Transactions

III. Current Status

Since July, the monthly report templates are filled out by UCSC and the subawardees who are actively working on a particular workplan; this means the Broad Institute and the University of Chicago as well as UCSC. The reporting period expense field is filled out using estimates of the burn rate self-reported by each institution. UCSC's cumulative expenses and unobligated balance exclude those of any subawardee expense, while subawardees fill out those fields with their own cumulative expenses and unobligated balances. Further, UCSC's reporting period expense estimates (burn rates) include allocations made to subawardees. The subawardees fill out these templates and submit them to UCSC, who submit all three reports to the NHLBI and the OTA officer by the 15th of the month following the monthly reporting period. UCSC's report also includes the technical progress reported to the agency. Since Modification 11 an additional report on monthly estimated budget breakouts by relevant features for the previous month is also prepared and submitted using a provided feature reporting template.

This appears to be satisfactory to the OTA officer and his team. In an email dated 10/5/2021 he thanked the OSP director for taking their concerns seriously and working with their office to come to an understanding. He said, "For the remainder of the duration of the OT, we will continue to use UCSC's estimated expenses when forecasting funding. Please consider the matter closed."

Further, on 9/23/2021, Modification 10 extended the Agreement by 18 months and authorized an additional \$8,750,000, with \$2,916,666 unrestricted and \$5,833,334 restricted. And Modification 11, signed on 10/5/2021, unrestricted \$1,944,444. The remaining restricted amount of \$3,888,890 will be made available subject to NHLBI acceptance of detailed monthly reporting and satisfactory awardee performance, including the awardee's ability to maintain up to date status of project management information in NHLBI's system.

IV. Conclusion

It has become clear that in addition to timely reporting, the NHLBI team wanted the monthly project reports to include the estimated burn rates of each institution in this consortium so that it could better forecast the funding needs of this research project. This is now taking place to its satisfaction.

Generally, our campus is familiar with standard contracts and grants provided by federal agencies and compliance with regulatory requirements that govern their management. Therefore, our accounting systems are adequate to the task of providing reports on expenses and accurately invoicing agencies for cost reimbursements. We did not find any issue with our campus accounting systems pertaining to this review. The only issue was understanding how the NHLBI team wanted their monthly progress reports filled out. This was fulfilled with careful communication and attention to their needs.

We regard this issue closed without requiring any further management corrective actions.