November 19, 2010

To the Audit Committee and
Senior Management of
Texas A&M Research Foundation

In planning and performing our audit of the financial statements of the Texas A&M Research Foundation (the “Foundation”) for the year ended August 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 19, 2010, on the financial statements of the Foundation.

We have already discussed these comments and suggestions with various Foundation personnel, and we will be pleased to discuss them in further at your convenience. Our comments are as follows:

Purchase Orders

During our review of a sample of purchase orders issued by the Research Foundation, we noted one purchase order that was liquidated for an amount greater than it was issued and approved for. The purchase order was liquidated through two invoices. The first invoice was liquidated correctly against the purchase order based on the quoted unit price. The second invoice was liquidated incorrectly against the purchase order as it was liquidated for a price that was higher than the quoted unit price. Per discussion with Foundation staff, the voucher for this invoice created a cost override request which was accepted by the buyer. The voucher was allowed to post and pay by pulling the difference for the account budget. The Principal Investigator had approved the invoice so the increase was not questioned. After discussing with Foundation staff, it was discovered, that the tolerance level for purchase order line items had been set to allow payment overrides of up to 100% over unit cost and $10,000 over extended cost.
It is our understanding that a FAMIS change request has been submitted to change the threshold allowing only overrides of up to 15% over unit cost and $100 over extended cost. In addition, the Foundation is providing additional buyer education.

**Cost Sharing**

During our review of the matching compliance requirement for the State award selected for testing, it was noted that cost sharing was incorrectly calculated with regard to unrecovered indirect costs on two of the projects subawards. The cost sharing amount allowed on one of the subawards was $11,625. The amount recorded was $13,664 resulting in over recording by $2,039. Cost sharing amounts for the other subaward were calculated through April 2010. The project period was through August 31, 2010. The amount of cost sharing not recorded for May – August was $9,375. Overall, the amount of cost sharing under recorded was $7,336. We determined that the error did not constitute a finding under Section 510(a) of the State of Texas Single Audit Circular.

We recommend that the cost sharing requirements be outlined at the beginning of the award and tracked to ensure that any limits are adhered to and that all allowed expenditures are considered for calculating unrecovered indirect costs.

**Transferred Assets**

During our review of property additions, we noted assets that were transferred from another institution that the Foundation recorded at cost. Assets transferred from another institution should be treated as contributions by the Foundation and recorded at fair market value at the time of transfer over the estimated remaining useful life as determined by the Foundation. The equipment management policy of the Foundation should be revised to require recording assets transferred from other institutions at fair market value.

We wish to thank the Foundation management and staff for their support and assistance during our audit.

This report is intended solely for the information and use of the board of trustees, audit committee, and management within the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Bryan, Texas
November 19, 2010