November 19, 2010

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

Subject: Management Letter Comments

Purchase Orders

Auditor Comment: 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 as the increase was not questioned. After discussing with the 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.

Management Response: We concur with the comment. As stated in the comment, 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

Auditor Comment: 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 the error did not constitute a finding under Section 501(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.

**Management Response:** We concur with the comment. Management will continue to review cost sharing calculations for accuracy.

**Transferred Assets**

**Auditor Comment:** 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 contribution 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.

**Management Response:** We concur with the comment. The Foundation’s equipment management policy will be revised to require recording assets transferred from other institutions at fair market value.

While it is our objective to have no audit comments, we are pleased to note that these comments have not placed our awards at risk. The auditors did not identify any findings.

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.

[Signatures]

Leo J. Paterra, President
And Chief Executive Officer

Linda Woodman, Senior Vice President and Chief Financial Officer