

**Audit of Controls over Salary Costs
Directly Charged to Federal Awards**

Report No. 13/14-05

October 3, 2013



FLORIDA
INTERNATIONAL
UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: October 3, 2013

To: Andres Gil, Vice President for Research

From: Allen Vann, Audit Director

Subject: **Audit of Controls over Salary Costs Directly Charged to Federal Awards
Report No. 13/14-05**

A handwritten signature in blue ink, appearing to read "Allen Vann", is written over the "From:" and "Subject:" lines.

Pursuant to our annual audit plan and federal requirements, we have completed an audit of salary costs charged to federal awards. The objective of our audit was to determine whether controls and procedures are adequate and effective to ensure that salary costs charged directly to federally sponsored projects are allowable in accordance with applicable Federal regulations and guidelines and University policies and procedures. During fiscal year 2011-2012 the University received \$100.8 million in research awards from a variety of governmental and corporate sources. We expended \$119 million from both the newly awarded and previously awarded grants, the majority of which is derived from salary costs.

Overall, our audit disclosed that the University's controls and procedures in this area were mostly adequate and effective. However, we did identify opportunities where internal controls could be strengthened, which in turn will further reduce the risk to the University; particularly in the areas of effort reporting and certification, and monitoring for the appropriate reporting of instructional activities and the vetting of charges for administrative and clerical staff. The audit resulted in ten recommendations, which management agreed to implement.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

- C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Member
- Mark B. Rosenberg, University President
- Douglas Wartzok, Provost and Executive Vice President
- Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
- Javier I. Marques, Chief of Staff, Office of the President

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OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of controls over salary costs directly charged to federal awards. According to federal requirements, the University's system for charging salary costs to federal grants has to provide for an independent evaluation.¹ The primary objective of our audit was to determine whether controls and procedures are adequate and effective to ensure that salary costs charged directly to federally sponsored projects are allowable in accordance with applicable Federal regulations and guidelines and University policies and procedures.

Our audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. We evaluated the adequacy of internal controls associated with salary costs charged directly to sponsored projects and reviewed selected sponsored projects' payroll transactions for spring and summer 2012 semesters. As part of reviewing payroll transactions, we examined time and effort reports to determine if the University's effort reporting process is adequate to comply with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Except for salary costs, we did not examine other costs such as travel, equipment purchased, supplies charged directly to grants during this audit. Audit fieldwork was conducted from March to June 2013.

During the audit, we reviewed University policies and procedures, applicable Federal regulations and National Institutes of Health (NIH) guidelines, and award requirements; observed current practices and processing techniques; interviewed responsible personnel; and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

As part of our audit, we reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. There were no related prior recommendations requiring follow-up.

¹ According to OMB Circular A-21 J.10.b.(2)(f), the system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with standards.

BACKGROUND

Florida International University (FIU or the University) received \$100.8 million in research awards and expended \$119 million during fiscal year 2011-2012.²

The University's Division of Research accepts and administers awards on behalf of the University. The Division of Research closely works with colleges, schools, departments, and principal investigators to ensure that transactions charged to grants fully comply with Federal regulations, University policies and procedures, and award requirements. Principal investigators are responsible for all programmatic and administrative aspects of an award, including the conduct of research or other activity described in proposal for an award.

By accepting Federal awards, the University agreed to comply with regulations governing the use of Federal funds and to ensure that costs, including salaries and wages charged to those awards were allowable in accordance with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. These cost principles requires that, to be allowable, costs must be reasonable, be allocable, and conform to exclusions or limitations set forth in the cost principles or sponsored agreements. Also, National Institutes of Health (NIH) awards are subject to its own guidelines, which include limitation on salary costs.

To comply with the Federal requirements related to salaries and wages charging to Federal awards, the University established various policies and procedures. For example, University Policy No. 2320.080, *Salary and Wage Charges on Sponsored Project Proposals*, states:

Salaries and wages for employees rendering technical and/or scientific services on the sponsored projects are allowable direct charges if: (1) the charge to the federal sponsor is only for that portion of the employee's salary or wages that corresponds to the employee's effort contributed to the project; (2) during the period of performance under the sponsored agreement; and (3) the salary or wages paid to the employee is/are consistent with the employee's regular salary established pursuant to FIU's Human Resources policies and procedures...

University Policy No. 2320.005, *Charging General Administrative and Clerical Cost on Federally Sponsored Projects*, states:

Salaries of administrative and clerical personnel, such as secretarial staff, receptionists, accountants, bookkeepers and other administrators, should normally be treated as Facilities and Administrative (F&A) costs and not charged directly to federally sponsored projects... Only in certain rare instances may general

² Source: Division of Research Report to BOT – September 2012

administrative and clerical costs be directly charged to a federally sponsored project.

University Policy No. 2350.020, *Effort Reporting and Certification*, states:

An after-the fact certification of effort is required of all individuals performing services on a sponsored project when all or a portion of their salary is charged to a sponsored project. Effort reports must be a reasonable estimate of the individual's time and effort during the time certified. Effort report must be certified by either the individual whose time and effort is being certified or someone having firsthand knowledge of the activities performed by the employee.

To account for payrolls charged to sponsored projects the University uses effort reporting system that includes all efforts made by exempt employees³ and non-exempt employees.⁴

³ Defined by the Division of Human Resources (HR) as an employee whose job duties and salary qualifies as being exempt from overtime provisions of the Fair Labor Standards Act.

⁴ Defined by HR as an employee whose job duties and salary is subject to the overtime provisions of the Fair Labor Standards Act.

FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the University's controls and procedures relating to salary costs charged directly to federally sponsored projects were mostly adequate and appropriately aligned with Federal regulations and guidelines and University policies and procedures. However, there were areas where internal controls need strengthening, particularly in the areas of effort reporting and certification, instructional activities not included in the effort report, and salaries of administrative and clerical staff.

Our overall evaluation of internal controls is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		x	
Policy & Procedures Compliance		x	
Effect		x	
Information Risk		x	
External Risk		x	
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-Compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Potential for damage	Severe risk of damage

The areas of necessary improvement identified in our audit are detailed below.

1. Effort Reporting and Certification

To meet Federal requirements the University is required to maintain a payroll distribution system that results in a reasonable allocation of salaries or wages charges to sponsored agreements.⁵ The payroll distribution system must be periodically reviewed to confirm the reasonableness of charges to sponsored projects. These confirmations are usually in the form of an activity report or payroll distribution report and must be signed either by the employees whose salary charges are being confirmed, or by “responsible persons with suitable means of verification that the work was performed.” These signatures confirm that “the distribution of activity represents a reasonable estimate of the work performed,” or that the payroll distribution is “reasonable in relation to work performed.”

Our testing of effort reporting and certification for 37 non-exempt and 94 exempt employees from 17 selected federally sponsored projects is noted below.

a) Effort Reporting for Non-Exempt Employees

The University’s effort reporting for non-exempt employees did not always meet University policy. University Policy No. 2350.020 states that: “Non-exempt employees must accurately enter the time they work on each sponsored project... That time must be approved by the employee’s supervisor as verification that the employee worked the number of hours stated on each sponsored project. The supervisor who approves the employee’s time must be a person who has firsthand knowledge of the work performed by the employee on the sponsored project. The hourly entries, with the supervisor approval, serve as the effort certification for the non-exempt employee.”

We selected and tested 3,538 payroll entries for 37 non-exempt employees who were fully or partially paid out of 12 selected sponsored projects for the pay period from December 24, 2011 through August 17, 2012.

More than 47% of the payroll entries tested was not approved by respective Principal Investigators (PIs) or supervisors who have first-hand knowledge of the actual work performed on their sponsored projects. For example,

- 31% (1,100 entries) were automatically approved by the Payroll Department since respective PIs/supervisors did not approve them by the deadline.
- 16% (575 entries) were approved by their administrative assistants who most likely do not have direct knowledge of the work performed by the employees on the sponsored projects. For example, one administrative assistant who approved an employee’s time charged to a sponsored project stated that she

⁵ See Section J.10 of OMB Circular A-21, *Cost Principles for Educational Institutions*.

only knew the employee reported to work, as they worked in the same area, but did not know if the hours charged to the sponsored project were accurate since she had no knowledge of the employee's activities.

The absence of an adequate effort certification process for the non-exempt employees could result in charging incorrect salary costs to sponsored projects.

b) Effort Reporting for Exempt Employees

Overall, the University's effort reporting for exempt employees was timely certified and adequately captured salaries or wages charged to sponsored projects. A great improvement over past practices was made for the exempt employees' effort reports due to the implementation of a new effort reporting system (ECRT) by the Division of Research. Nevertheless, there are several instances where an effort report was untimely certified and one instance where an effort report did not capture all sponsored activities and also was not certified by a principal investigator.

As part of effort reporting process for exempt employees, each semester an effort report is sent via email to each of them listing the compensation that the individual received from FIU for the reported period, listed by Project/Department ID and amount, and expressed as a percentage of effort for all of that individual's FIU-related work activities. The effort report must include all the sponsored projects that the employee is working on and the percentage effort towards each, regardless of whether or not the project paid for the employee's salary, such as cost-shared or contributed effort. The total of the percentages on the effort report must equal 100%, which account for all sponsored and/or institutional activities.

We identified 94 exempt employees from the 17 sponsored projects during the audit period. Their effort reports for spring 2012 and summer 2012 were reviewed. The results of our review follow:

- Seven effort reports for spring 2012 and one effort report for summer 2012 were not timely certified. The delay ranged from 1 day to 16 days from the established deadline.
- Two effort reports for spring 2012 and two effort report for summer 2012 were not processed despite the deadline passing more than 10 and 7 months, respectively. We were informed that these resulted from either an effort coordinator turnover at department level or not all payroll information including payroll adjustments loading to the University's effort system.
- One effort report for summer 2012 was not generated and certified. According to Division of Research personnel, the effort report was not required because an employee's payrolls charged to two sponsored projects were made in error. Since the employee did not spend time on any sponsored projects, her effort report was not required to be certified. However, as of June 10, 2013, seven months after the certification deadline,

the salary cost of \$3,927 charged to these sponsored projects had not been adjusted.

- No effort reports for spring and summer 2012 were generated and certified by the Principal Investigator for a sponsored project (ID 800000664), although the grant proposal required the Principal Investigator to commit 20% of her time as a cost share. The Principal Investigator informed us that she spent 20% of her time working on this project, although her salaries were not charged to the project. In addition, despite the 20% effort contributed by the Principal Investigator on the grant proposal, the effort level required by the Principal Investigator on the grant award notification letter sent by a sponsor showed 100% for each of the last three years of the grant.

DOR management indicated that they will continue to work with principal investigators and effort coordinators at department level to ensure that effort reports are generated accurately and certified in a timely manner. During our review of the effort reports, we found other non-sponsored activities such as instruction were not captured in the effort reports (see Finding No. 2, Instructional Activities Not Included in the Effort Report).

Recommendations

The Division of Research should:	
1.1	Work with colleges, schools, departments, and/or principal investigators to ensure that the hours charged to sponsored projects by non-exempt employees are approved by their supervisor or principal investigator who has firsthand knowledge of their work.
1.2	Work with the Division of Information Technology to ensure that all employee payroll information including adjustments/transfers is reflected in the University's effort system.
1.3	Ensure that effort reports include all sponsored projects that the employee is working on and the percentage effort towards each, whether or not the project paid for the employee's salary.

Management Response/Action Plan:

- 1.1 Cost Principles for Higher Education provides the guidance/requirements for effort reporting systems, which require the employee or an individual with firsthand knowledge to certify to the effort performed on sponsored projects. The University policy will be changed to require the one signature.

Implementation date: November 1, 2013

- 1.2 The payroll information provided as a feed into the effort reconciled to the University ledger by DOR.

Implementation date: Immediately

- 1.3 When an employee's salary is not charged to a project but the individual has effort towards that project, the effort performed is considered cost sharing. The effort system will generate an effort report for any committed cost share.

Implementation date: January 30, 2014

2. Instructional Activities Not Included in the Effort Report

To comply with OMB Circular A-21, the University established a policy, which requires the effort report to account for all effort of each employee expended on sponsored projects, administration, business development, instruction and unsponsored scholarly activity, clinical activity, and other activity. OMB Circular A-21, Section J. 10, *Compensation for Personal Services*, states that incidental work (that in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems.

During our testing of the 94 exempt employees' effort reports for spring and summer 2012 from 17 selected sponsored projects, we found 9 employees' entire efforts (100%) were charged to sponsored projects despite teaching at the same time. However, their effort report did not include the teaching activities.

We expanded our sample and identified additional 290 employees whose entire efforts (100%) were charged to sponsored projects in spring and/or summer 2012. Our test of the 290 employees disclosed that 98 employees had instructional activities despite 100% sponsored activities on their effort report. Further review of 13 out of the 98 employees disclosed instructional activities from 6 to 18 credit hours in spring or summer 2012.

The reasons the instructional activity was not reflected on their effort report is that: 1) the entire salary of these employees was charged to a sponsored project(s); or 2) their teaching assignments were paid via extra state compensation.

Not accounting for all effort of each employee expended on various activities including instruction may expose the University to potential salary disallowance or overstated effort on sponsored projects.

Recommendations

The Division of Research should:	
2.1	Work with Academic Affairs to ensure that the exempt employee's effort report accounts for all activities including instruction.
2.2	Review those employees who have teaching assignments but charge their entire salaries to sponsored projects to ensure that the salary charges are proper and in compliance with OMB Circular A-21.

Management Response/Action Plan:

- 2.1 The effort system includes all base salary payments and excludes extra state compensation. Academic Affairs reviews and approves extra state compensation, the review will take into consideration the duties supported by the base salary to insure the extra state compensation is considered incidental activity.

Implementation date: Immediately

- 2.2 A report has been created to compare employees paid 100% from projects with teaching assignments. Academic Affairs will utilize the report to determine if the service provided should be considered incidental work.

Implementation date: November 1, 2013

3. Extra State Compensation Charged to Sponsored Projects

University Policy No. 2350.025, *Extra State Compensation From Sponsored Projects For FIU Personnel*, requires that extra state compensation paid from a sponsored project will only be considered in rare circumstances and only when all of six specific conditions are met. One of the six conditions is the sponsor specifically approves the extra state compensation payment, in writing, or the extra state compensation payment is set forth specifically in the award document as an extra state compensation payment.

During our testing of the 94 exempt employees' salary costs charged to 17 sponsored projects for spring and summer 2012, we found only one project (ID 125100561) where there were charges for three employees who received extra state compensation, totaling \$16,197 including fringe benefits.

As the University Policy requires, the extra compensation was preapproved for two of the employees by the project sponsor and the University's Division of Research. However, the other employee's extra state compensation, totaling \$771 was charged to the sponsored project, but was not approved by the sponsor and was not in the award document. The Division of Research, however, made a one time after-the-fact approval since the extra work was already performed and related to the project.

Recommendation

The Division of Research should:	
3.1	Work with the principal investigator and Human Resources to ensure that extra state compensation charged to a sponsored project is not processed prior to an approval from DOR and the sponsor.

Management Response/Action Plan:

- 3.1 Extra State Compensation funded by sponsored projects will be approved by DOR prior to processing the payment.

Implementation date: Immediately

4. Salaries of Administrative and Clerical Personnel

According to OMB Circular A-21, Section F.6.b, *Departmental Administration Expenditures*, the salaries of administrative and clerical staff should normally be treated as indirect costs commonly referred to as Facilities and Administrative (F&A) costs. For major projects⁶ or in exceptional circumstances⁷ direct charging of F&A costs to grants may be appropriate. Accordingly, the University has developed a policy and procedures requiring principal investigators to obtain an approval from the Division of Research via a Direct Charge Exemption Form before F&A costs can be charged to grants as direct costs.

We identified 37 non-exempt employees from 12 selected sponsored projects and reviewed applicable documents to determine whether administrative and clerical staff's salaries should have been charged directly to the sponsored projects. Also, various employees were interviewed for their job responsibilities related to the sponsored projects. Our review disclosed the following:

- Salary of an administrative and clerical staff (\$3,150) was directly charged to a sponsored project (ID 800001161) during spring and summer 2012, but was not included in the Direct Charge Exemption Form approved by the Division of Research.
- Salary costs (\$21,607) for four employees who performed administrative and/or clerical work were charged directly to two sponsored projects (IDs: 124401593 and 800000246) during spring and summer 2012. The Direct Charge Exemption form for these two projects was approved by the Division of Research without sufficient justification/documentation for administrative and clerical staff's salaries to be charged. The documentation should include, but not limited to: the name of each employee to be directly charged; salary/wage to be paid to each employee; percent effort devoted to the project; a description of the employee's duties and responsibilities and how they will advance the particular scientific, technical, and/or programmatic requirements of the work to be funded by the federal sponsor; and an explanation of why such services go beyond the normal administrative services the Principal Investigator's academic unit provides in support of its research and other program.

⁶ Major project is defined as a project that requires an extensive amount of administrative or clerical support, which significantly greater than the routine level of such services provided by academic departments.

⁷ All of the following exceptional circumstances need to be met: the project has a special, non-routine, need for the item or service; the cost can be specifically identified with a particular sponsored project or can be assigned to a particular sponsored project with a high degree of accuracy, and directly benefits the sponsored project; each expense to be direct charged is explicitly set forth as a budget line-item in the project proposal; and the project sponsor approves the direct charging of the administrative costs, either through approval of the proposal budget or otherwise.

- The entire salary of an Assistant Director at the Children Creative Learning Center (\$34,136) was charged to a sponsored project (ID 800000664) during spring and summer 2012, as a grant coordinator. Her effort report reflected 100% sponsored activities. However, she performed other administrative duties not related to the project, such as ordering supplies, supervising staff and reconciling fee collections with deposits.

In addition, our review of 112 Temporary/Student Assistant Forms (HR forms), from the 12 sponsored projects, processed by the Division of Research, which allowed their salary costs to be charged directly to the projects, disclosed that 11 Forms (10%) were approved by the Division of Research without valid justification, a description of employee's job duties and responsibilities, as to why these employees were being paid out of the sponsored project. The justification section of the form was left blank by the principal investigators who are required to complete them.

Approving a Direct Charge Exemption Form and/or a Temporary/Student Assistant Form without sufficient documentation/justification as to how the employee's work benefits a sponsored project may expose the University to financial risk should a sponsor perform a post award audit and question these costs.

Recommendations

The Division of Research should:	
4.1	Ensure that departments or principal investigators do not directly charge salaries of their administrative and clerical staff to a sponsored project without an approved Direct Charge Exemption Form.
4.2	Review and approve Direct Charge Exemption Forms only after sufficient justification/documentation is provided.
4.3	Only process a Temporary/Student Assistant Form after obtaining and reviewing a description of the employee's job duties and responsibilities that is related to a sponsored project.
4.4	Review with the Principal Investigator the job duties of the grant coordinator identified above to ensure that all salary charges are proper and in compliance with OMB Circular A-21.

Management Response/Action Plan:

- 4.1 Job classifications that clearly separate administrative and clerical duties will be required to ensure the exemption form is completed. Human Resources are currently reviewing job classifications with DOR's assistance.

Implementation date: July 1, 2014

- 4.2 The Direct Charge Exemption form was revised to ensure that adequate information is provided for the approval.

Implementation date: November 1, 2013

- 4.3 The description of duties for Temporary/Student Assistant is included on the form and future Forms will not be approved without adequate justification.

Implementation date: Immediately

- 4.4 Division of Research will work with Human Resources to verify that Principal Investigators and department administrators can access job descriptions and duties to ensure that all salary charges are proper and in compliance with Circular A-21. Ultimately, it is the responsibility of the Principal Investigator to ensure that all salary charges on his or her sponsored project are proper, allowable, and in compliance with the Circular A-21.

Implementation date: Immediately