

NATIONAL SCIENCE FOUNDATION  
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OFFICE OF  
INSPECTOR GENERAL

**MEMORANDUM**

Date: MAR 27 2008

To: Mary F. Santonastasso  
Division Director, Division of Institution and Award Support  
(BFA/DIAS)

Karen Tiplady  
Division Director, Division of Grants and Agreements (BFA/DGA)

From: James J. Noeth   
Deputy Associate Inspector General for Audits

Subject: OIG Report Number 08-1-005  
Audit of Labor Effort Reporting System, University of Illinois at  
Urbana-Champaign

Attached is the final report prepared by Mayer Hoffman McCann, P. C., an independent public accounting firm, on the audit of the payroll distribution and labor effort reporting system used by the University of Illinois at Urbana-Champaign (UI) to support salary and wages charged to NSF grants. The University's comments to the draft report have been summarized after the recommendations for each audit finding and the auditor's response has been provided to these comments. The full text of the University's comments is included as an Appendix to the audit report.

The audit found that UI generally has a well established Federal grants management program. However, the University needs to improve its internal controls over the labor effort certification process to ensure the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. Without timely or appropriate controls for certifying labor effort confirmation reports, UI has less assurance the confirmations are reliable and reasonably support salaries and wages charged to NSF's sponsored projects.

We consider UI's internal control procedural weaknesses identified in the audit findings to be significant. Accordingly, we request that your office work with the

University and the cognizant audit agency, the Office of Naval Research (ONR), to develop a written Corrective Action Plan detailing specific actions taken and/or planned to address each audit recommendation. Milestone dates should be provided for corrective actions not yet completed.

To help ensure the recommendations are resolved within six months of issuance of the audit report pursuant to Office of Management and Budget Circular A-50, please coordinate the development of the Corrective Action Plan with our office during the resolution period. Each audit recommendation should not be closed until NSF, in coordination with ONR, determines that UI has adequately addressed the recommendation and proposed corrective actions have been satisfactorily implemented. Please note that we have sent a copy of the subject audit report under separate cover to Ms. Debbie Rafi, Director of the Indirect Cost Branch, at ONR.

#### OIG Oversight of Audit

To fulfill our responsibilities under Generally Accepted Government Auditing Standards, the Office of Inspector General:

- Provided a detailed performance audit program and ensured Mayer Hoffman McCann's approach and planning for the audit was appropriate;
- Evaluated the qualifications and independence of the auditors;
- Monitored progress of the audit at key points and accompanied Mayer Hoffman McCann auditors onsite at the grantee, as considered necessary;
- Had periodic meetings with Mayer Hoffman McCann to discuss audit progress, findings, and recommendations;
- Reviewed the audit report and selected audit work papers, prepared by Mayer Hoffman McCann, to ensure compliance with Generally Accepted Government Auditing Standards and the NSF audit program; and
- Coordinated issuance of the audit report.

Mayer Hoffman McCann is responsible for the attached audit report of UI's payroll distribution and labor effort reporting system and the conclusions expressed in the audit report. The NSF OIG does not express an opinion on the audit report's conclusions.

We appreciate the cooperation extended to us during our review. If you have any questions, please feel free to call me at 703-292-5005 or Jerel Silver at 703-292-8461.

Enclosure

cc: Gilbert Tran, Technical Manager, Office of Management and Budget  
Thomas Cooley, Director and Chief Financial Officer, BFA/OAD  
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**Audit of Labor Effort Reporting System  
University of Illinois at Urbana-Champaign**

**National Science Foundation  
Office of Inspector General**

**March 27, 2008  
OIG 08-1-005**

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## EXECUTIVE SUMMARY

This audit report provides the results of our review of the payroll distribution and labor effort reporting system used by the University of Illinois- Urbana (UI) to support salaries and wages charged to National Science Foundation (NSF) grants. In fiscal year 2006, UI had total Federal research and development grant expenditures of \$259 million, of which \$89 million was directly funded by NSF. Of this amount, over \$29.5 million or 33 percent was for labor costs directly charged to NSF grants. This audit is one of a series of Office of Inspector General (OIG) reviews of the labor effort distribution systems being conducted at NSF's top-funded universities in order to assess the adequacy of internal controls to ensure salary and wage costs claimed on NSF grants are properly managed, accounted for, and monitored.

Our review disclosed that UI generally has a well established and sound Federal grants management program. It has developed grants management policies, procedures, and practices over the years for administering its payroll distribution and labor effort reporting system and provided grants management training to campus personnel to provide an operational framework to assure adherence with Federal and campus grants management policies and procedures. Our review of 30 sampled employees<sup>1</sup> disclosed UI's Expenditure Confirmation Reports generally support the FY 2006 salary costs of \$799,068 directly charged to NSF grants.

However, UI needs to improve its controls over the labor effort certification process to ensure the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. While the payroll distribution and labor effort reporting system accounts for 100 percent of each employee's work activities, UI does not provide such information to certifying officials during the labor certification process to ensure that labor costs charged to NSF grants are reasonable and equitable relative to the employee's other sponsored and non-sponsored activities. In addition, certifying officials approved late 49 of 77 Expenditure Confirmation Reports by 1 to 205 days beyond the University established due dates, representing 61 percent of the NSF salary charges reviewed. Also, UI has not performed the Federally-required independent internal evaluation to ensure the system's effectiveness, forfeiting an opportunity to identify and address any needed improvements.

As a result, UI has less assurance that the principal investigator (PI) certifications are reliable and reasonably support salary and wage charges to Federally-sponsored projects. Without knowledge of total employee workload information, there is increased risk of potential misallocation of salary costs to NSF projects. In addition, late certification of NSF labor charges diminishes reliability as time increases past the established UI certification date. Given the material amount of \$29.5 million of UI labor costs charged to NSF grants, or approximately one-third of total NSF grant expenditures in FY 2006, improved internal controls are warranted to enhance the reliability and integrity of the University's labor certification process.

These weaknesses occurred because UI believed that certifying officials did not need to know the level of effort employees expend on all work activities in order to correctly certify the reasonableness of direct labor charges to NSF sponsored projects. Therefore, even though such employee workload information was available, the University did not have procedures to ensure

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<sup>1</sup> The sample of 30 employees was statistically selected by a statistician engaged by the NSF-OIG.

certifying officials were provided and utilized such information during the labor confirmation process. In addition, UI has not instituted formal written timeliness standards or assigned clear senior management accountability to ensure timely PI review and certification of Expenditure Confirmation Reports. Further, the University has not performed the required evaluations of the payroll distribution and labor effort reporting system because it believed that the annual Office of Management and Budget (OMB) Circular A-133 audit fulfilled the Federal evaluation requirement.

To address these control weaknesses, recommendations were made to improve the effectiveness and timeliness of its labor effort confirmation process. The recommendations were primarily directed at the need for (a) certifying officials to utilize total employee workload information when reviewing and confirming the reasonableness of actual salary costs to Federally-sponsored projects, (b) instituting formal written standards to improve the timeliness of PI certifications of Expenditure Confirmation Reports, and (c) establishing formal procedures for performing independent evaluations of its payroll distribution and effort reporting system, as required by Federal regulations.

A draft report requesting comments on the audit findings and recommendations was issued to UI. In general, the University was receptive to the audit recommendations. However, while its proposed corrective actions were appropriate, the actions did not always address the full intent of all the audit recommendations. Specifically, while UI agreed to provide PIs access to total employee workload information in its new web-based electronic labor confirmation system, it needs to establish procedures ensuring the PIs use this information when confirming actual labor costs to Federally-sponsored projects. Additionally, while UI agreed to have the Office of University Audits continue to include the labor effort reporting system in its risk assessment process for developing its Annual Audit Plan, the University needs to establish an explicit requirement in its written policy and procedures for the Federally-required evaluation of the system. Written policy and procedures are a critical element to a sound UI internal control structure for proper management and administration of its Federal grant program. Therefore, NSF should work with the cognizant audit agency and UI to ensure the University develops an acceptable corrective action plan to implement each audit recommendation.

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## ACRONYMS

<b>ARS</b>	Activity Reporting System
<b>FY</b>	Fiscal Year
<b>GCO</b>	Grants and Contracts Office
<b>NSF</b>	National Science Foundation
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	U.S. Office of Management and Budget
<b>ONR</b>	U.S. Office of Naval Research
<b>PI</b>	Principal Investigator
<b>UI</b>	University of Illinois, Urbana Campus

# INTRODUCTION

## **Background**

Approximately one third of the National Science Foundation (NSF) award funds are provided for salary and wages, amounting to about \$1.3 billion annually at universities. In recent years, there have been several civil settlements involving overcharges of labor costs to Federal grants, amounting to millions of dollars at several major universities, including some funded by NSF. Because of these legal actions and the material amounts of labor costs paid from NSF awards, the Office of Inspector General (OIG) is undertaking a series of reviews of the labor effort distribution systems at NSF's top-funded universities in order to assess the adequacy of internal controls to ensure salary and wage costs claimed on NSF grants are properly managed, accounted for, and monitored. This review, involving the University of Illinois, Urbana, is one in a series of our planned audits of such labor effort distribution systems.

The University of Illinois, founded in 1867, is a world leader in research, teaching, and public engagement, distinguished by the breadth of its programs, broad academic excellence, and internationally renowned faculty. The *U. S. News & World Report's America's Best Colleges* rated UI as the eighth best public University in the nation. The University's main campus is located in Urbana and additional campuses are located in Chicago and Springfield. In fiscal year (FY) 2006, the student body at the Urbana campus was comprised of almost 31,000 undergraduate and over 11,000 graduate and professional students. The campus has 16 colleges and instructional units, which includes a medical school.

In fiscal year 2006 <sup>2</sup>, the University of Illinois had a total operating budget of \$3.2 billion, of which more than \$668 million was dedicated to research. The Urbana campus had a total operating budget of \$1.4 billion, of which more than \$316 million was dedicated to research. Specifically, \$259 million was provided by the Federal Government, \$27 million from the state and \$30 million from other sponsors, including private companies. Of the Federal research funds, NSF provided over \$89 million or about one-third of the total; of which \$29.5 million or 33 percent was for salaries and wages. UI had 2,928 faculty members, 3,190 administrative and professional staff, 4,467 support staff, and 6,048 graduate assistants.

UI's Office of Business and Financial Services supports the business and financial operations of the University and assists departments in their daily operations including administering sponsored projects. Specifically, the Grants and Contracts Office (GCO) is tasked with assuring compliance with Federal requirements such as confirming that salaries and wages charged to Federal awards are reviewed and certified to be accurate by appropriate officials. Each University Department has a Department Chair who serves as the executive officer and has general responsibility for promoting the scholarly and research activities of the faculty. Also, the Department Chair has the responsibility for securing and retaining faculty and staff members and recommending tenure and promotions.

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<sup>2</sup> UI fiscal year begins on July 1 and ends on June 30.

In most Departments, a business manager serves as the liaison with GCO. The business manager is the key official in administrative matters for sponsored projects and is responsible for ensuring: a) awards and their budgets are accurately created in the University's financial system; b) awards are monitored on a monthly basis, and c) principal investigators (PI) are provided assistance to ensure grant charges are appropriate. However, the PIs have primary responsibility for all aspects of sponsored projects; including the approval of all grant charges and ensuring the research is conducted in accordance with all award terms and conditions. As such, the PIs review the accuracy of all employee labor costs recorded on monthly financial reports for sponsored projects.

UI documents and certifies labor costs charged to sponsored projects on a form known as an Expenditure Confirmation Report (Confirmation) for each six-month effort reporting period. The Confirmation reports are generated for PIs and list the total aggregate labor costs for all employee salary charges to each sponsored project. However, UI does not identify the names of the employees on the Confirmation reports. The PI or other designated certifying official is required to certify the accuracy of the aggregate labor costs reported on the Confirmation report.

## **Objectives, Scope, and Methodology**

***Audit Objectives.*** The audit objectives were: (a) to evaluate whether UI internal controls are adequate to properly manage, account for, and monitor salary and wage charges to NSF grants in accordance with OMB and NSF grant requirements and (b) to determine if salary and wage charges are allowable, allocable, and reasonable in accordance with Federal cost principles and NSF grant terms and conditions.

***Scope and Methodology.*** The audit focused on the UI payroll distribution and labor effort reporting system and accordingly reviewed internal controls for ensuring that labor costs charged to NSF (i) were actually incurred, (ii) benefited NSF awards, (iii) were accurately and timely recorded and charged to NSF, and (iv) were for allowable and allocable-type activities as required by Federal and NSF requirements. In addition, we evaluated if the level of PI effort pledged in grant proposal and award documents was actually contributed by the faculty member to accomplish award objectives.

To address each of these control objectives, the OIG engaged a statistician to provide expert advice in selecting a statistical sample of employee salary records for testing. The use of statistical tools and methodology will enable projecting our audit results to the entire population of universities to be included in the OIG planned reviews of payroll distribution systems nationwide. However, due to the small statistical sample size of 30 employees tested, we are not able to make any projections to the total UI population of labor costs charged to NSF grants. Specifically, the FY 2006 salary costs for the 30 employees tested amounted to \$799,068 and were supported by 77 Confirmations.<sup>3</sup> Our statistical sample was derived from a total population of 2,211 UI employees who charged \$29.5 million of FY 2006 salaries to NSF awards. This population excluded (a) any employee with total salary costs of \$100 or less and (b) all salary

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<sup>3</sup> Confirmation reports are prepared twice a year on December 31 and June 30. However, some employees' salaries are listed on more than one report because they worked on multiple sponsored projects for different PIs.

charges for undergraduate students. These amounts were excluded because of their small dollar value and the difficulty in locating undergraduate students for personal interviews.

We compared UI policy and procedures to Federal and NSF requirements for allocating labor costs to Federal awards and interviewed key University personnel to gain an understanding of the controls in place to ensure salary and wages charged to NSF awards were allowable, reasonable, and allocable. For each statistically selected salary record, we obtained the following documentation to determine whether labor costs UI charged NSF awards met the control objectives:

- a. PI Confirmations certifying the total aggregate labor costs charged to each NSF award during the effort reporting period.
- b. Monthly financial reports for each NSF award listing total expenditures including individual employee salary charges.
- c. Activity Reporting System (ARS) reports documenting 100 percent of activities an employee is expected to work on during the year.
- d. Appointment letters or other documents supporting the approved salary for employees.
- e. Personnel activity reports documenting for each employee their salary and wage transactions charged or credited to sponsored projects and all other activities during each effort reporting period.
- f. Award document to determine whether the award had any terms and conditions that would affect allowable labor charges to the award.

To ensure that salaries charged to NSF awards were actually incurred and benefited NSF awards, we verified the information on the Confirmation and ARS reports by interviewing the 30 sampled employees. We inquired whether (a) the labor charges documented were actually incurred on projects and activities, (b) the approximate percentage of effort actually worked on each sponsored project and/or activity was reasonably consistent with NSF labor charges, and (c) the type of work performed on NSF projects was generally consistent with the scope of the awards.

In determining whether labor costs were accurately recorded and charged to NSF, we compared the salary amounts in appointment letters or other documents supporting salaries and wages to the salary amounts recorded in the personnel activity report for each employee in our selected sample. We verified whether the appointment was for nine months or 12 months and verified that salary charges were for the time period represented in the Confirmation reports. Also, labor transactions were reviewed to determine whether UI followed Federal, NSF and campus requirements for charging salaries and wages to NSF awards.

Furthermore, we interviewed selected PIs and business managers to ascertain the processes used for verifying actual employee work performance prior to certifying Confirmation reports at the end of each six-month reporting period. PIs were asked (a) about the number of projects and personnel they were responsible for and how they validated actual work effort on sponsored awards and other activities and (b) to describe the monthly process used to validate the salaries and wages charged to NSF awards. Similarly, we ascertained the role of Department business managers in the labor confirmation process and reviewed the various types of supporting documentation which they provided to PIs during the process.

To determine whether UI officials certified Confirmation reports in a timely manner, we compared the date the Confirmation reports were distributed to the date the reports were certified and returned. Timeliness was based on the due dates specified in the GCO transmittal letters sent to each Department distributing the applicable Confirmation reports for each PI with sponsored projects.

Finally, we reviewed prior audit reports on UI's Federal grants management program performed by its OMB Circular A-133 auditors<sup>4</sup> in the past three years to determine whether there were any audit findings and recommendations on labor effort reporting. Review of the A-133 audit working papers is performed to ascertain the actual audit scope and procedures used by the auditors in order to (i) preclude any duplicative audit work and (ii) to determine the specific work performed on the labor effort reporting system. Accordingly, we reviewed the FY 2005 audit working papers, the most current A-133 audit completed at the time of the review, and interviewed the cognizant Senior Audit Manager to gain an understanding of the scope and procedures used to review the University's payroll distribution and labor effort reporting system. Based on our review, we determined whether the scope of the A-133 audit was sufficient to fulfill the Federal requirement for an "independent internal evaluation" to ensure the system's effectiveness and compliance with Federal cost principles.

Onsite audit work was performed on the UI campus in late November 2006 and January 2007. The remainder of the audit work was completed through phone interviews, emails, and documentation requests through October 2007. We were engaged to perform the above audit objectives by the Office of Inspector General, National Science Foundation and our audit was conducted in accordance with the Comptroller General's *Government Auditing Standards* and accordingly included such tests of accounting records and other auditing procedures, as we considered necessary, to fully address the audit objectives.

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<sup>4</sup> OMB Circular A-133 is entitled, *Audits of States, Local Governments, and Non-Profit Organizations*.

## FINDING AND RECOMMENDATIONS

### **Internal Control Improvements Needed for the Labor Effort Reporting System**

Federal regulations require salary and wages be supported by labor effort reports signed and approved by the employee or an official who is in a position to know whether the work was performed. The payroll distribution and labor effort reporting system must be incorporated into the official records of the university and encompass “on an integrated basis” all sponsored and other activities for which the university compensates an individual. Further, the regulations require universities to provide effective control and accountability for all funds and employ sound management practices in the fulfillment of its Federal obligations. As such, awardees must establish and maintain internal controls that are designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. Additionally, while Federal standards do not specify when a labor effort report should be completed, university officials should provide the after-the-fact confirmation as close to the end of the reporting period as possible to help ensure its reliability.

Our review of 30 sampled employees disclosed that UI Confirmation reports generally support the FY 2006 salary costs of \$799,068 directly charged to NSF grants. However, UI could improve controls over its labor effort certification process to ensure the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. Our review disclosed the following control weaknesses:

- Certifying officials are not provided the necessary information on total employee work activities on an integrated basis to help ensure that the confirmation of labor costs charged to NSF grants is reasonable and equitable relative to the employee’s other sponsored and non-sponsored activities.
- UI certifying officials approved late 49 of 77 Confirmation reports by 1 to 205 days beyond the University established due date, representing 61 percent of the NSF salary charges reviewed.
- UI has not performed independent internal evaluations of its payroll distribution and effort reporting system, as required by Federal regulations, to evaluate the system’s effectiveness and compliance with Federal standards.

As a result, UI has less assurance that PI certifications are reliable and reasonably support salary and wage charges to Federally-sponsored projects. Without knowledge of total employee workload information, there is increased risk of potential misallocation of salary costs to NSF projects. In addition, late certification of NSF labor charges diminishes reliability as time increases past the established UI certification date. Given the material amount of \$29.5 million of UI labor costs charged to NSF grants, or approximately one-third of total NSF grant expenditures in FY 2006, improved internal controls are warranted to enhance the reliability and integrity of the University’s labor certification process.

These weaknesses occurred because UI grants management officials believed that certifying officials did not need to know the level of effort employees expend on all work activities in order to correctly certify the reasonableness of direct labor charges to NSF sponsored projects. Therefore, even though total employee work activity information is available in the University's payroll distribution system, it was not routinely provided to certifying officials during the labor confirmation process. Furthermore, UI has not established formal written timeliness standards or assigned clear senior management accountability to ensure timely confirmation of NSF salary charges. Additionally, the University has not performed the required independent internal evaluations of its system to ensure effective because it believed that the annual OMB Circular A-133 audit fulfilled the Federal evaluation requirement.

### OMB Requirements for Labor Effort Reporting

OMB Circular A-21, *Cost Principles for Educational Institutions*, requires certification of labor effort/activity contributed by employees on Federal awards. Specifically, paragraph J10.b.(2) requires a payroll distribution system that will "...reasonably reflect the activity for which the employee is compensated by the institution; and encompass both sponsored and all other activities on an integrated basis...". The Circular allows direct activity charges to be made initially to sponsored projects on the basis of estimates made before the services are performed, but requires "after the fact confirmation or determination so that costs distributed represent actual costs." In addition, the payroll distribution system must "allow confirmation of activity allocable to each sponsored project and each of the categories of activity needed to identify F & A [facilities and administrative] costs and the functions to which they are allocable." The Circular requires that the University provide for independent internal evaluations to ensure the system's effectiveness and compliance with Federal standards.

Further, OMB Circular A-21 recognizes that "Each institution, in fulfillment of its obligations, should employ sound management practices"<sup>5</sup> in applying the Federal cost principles for charging costs on sponsored projects. Consistent with this requirement, other OMB regulations require universities to provide for adequate stewardship of Federal grant funds and to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance as follows:

- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires a grantee's financial management system to provide for "Effective control over and accountability for all funds, property and other assets."<sup>6</sup>
- OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a recipient institution to "maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal

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<sup>5</sup> Paragraph A.2.d. of OMB Circular A-21, *Cost Principles for Educational Institutions*.

<sup>6</sup> Subpart C, Standards for Financial Management Systems, Paragraph .21(b)(3) of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

awards in compliance with laws, regulations, and provisions of contracts or grant agreements . . .”<sup>7</sup> Internal control is considered a major part of managing an organization and comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Management sets the objectives, puts the control mechanisms in place, and monitors and evaluates whether the controls are operating as intended.

Accordingly, UI is responsible for establishing and maintaining adequate internal control processes to provide reasonable assurance that employee salaries and wages charged to NSF grants represent actual effort devoted to the projects and were equitable in relationship to the individual’s other sponsored and non-sponsored activities. Sound internal control requires the University to periodically evaluate its control mechanisms to determine if management objectives are being effectively and efficiently achieved as circumstances change over the years. Internal control is a dynamic process to meet an entity’s changing needs, thus monitoring and evaluation tools are a key control component for ensuring proper UI stewardship of Federal grant funds.

#### Certifying Officials Not Provided Total Employee Work Activities When Certifying Labor Effort Devoted to NSF Grants

Pursuant to the OMB requirements, UI’s payroll distribution and labor effort reporting system accounts for 100 percent of each employee’s sponsored and non-sponsored work activities as required by Federal standards and provides controls to preclude overcharges of total employee labor costs. However, such employee workload information is not provided to PIs during the certification process when they are confirming the reasonableness of direct salary charges to individual Federal grants, including NSF sponsored projects. Specifically, the University documents labor costs charged to Federally-sponsored projects on a form known as an Expenditure Confirmation Report for each six-month effort reporting period.<sup>8</sup> The Confirmation report aggregates labor charges into a single salary amount for all employees working on each sponsored project for which the researcher is responsible. The PI’s confirmation of such aggregate labor charges relies on the researcher’s prior review of monthly financial reports, which include salary and wage charges for each employee working on the sponsored project. However, because neither the Expenditure Confirmation Report nor the monthly financial reports include total employee workload information, the PI confirms the reasonableness of the aggregate salary amount without having knowledge of the employee’s proportionate share of NSF labor costs relative to the salary amounts allocated to the individual’s other sponsored and/or non-sponsored work activities.

*Payroll Distribution System* - UI allocates employee salaries and wages to sponsored and non-sponsored activities in their financial management system on the basis of estimates made before services are performed and the resulting allocations can be displayed for each employee in

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<sup>7</sup> Paragraph .300 (b) of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

<sup>8</sup> UI has two effort reporting periods, a fall period and a spring period. The fall period covers the first half of the University’s fiscal year from July 1 through December 31 and the spring period covers the second half of the fiscal year from January 1 through June 30.

the Activity Reporting System (ARS). ARS reports reflect the distribution of 100 percent of an employee's work activities to the various categories for which the individual is compensated such as Instruction, Departmental Research, Organized Research, etc. UI's payroll distribution system has controls in place to ensure that salaries allocated to the various work activities do not exceed 100 percent of an employee's total salary amount. While UI grants management officials stated that ARS reports are available online, the reports are not specifically provided to PIs during any portion of the labor effort certification process.

*Monthly Financial Reports* - UI's financial management system generates monthly financial reports for each sponsored project that provide a full accounting of all direct grant costs, including a list of labor charges for each employee working on the project. The PIs are required to review such labor charges for reasonableness and accuracy and to initiate any adjustments, if needed. However, UI procedures do not require the PIs to document their review of the monthly grant expenditure reports, thus we were not able to independently validate if PIs had actually performed the required reviews. Also, the monthly reports do not provide information on salary allocated and/or work effort devoted by the employee to other sponsored projects or non-sponsored activities on an integrated basis for which the individual is compensated by the University. Only by providing the PI with a full accounting of an employee's labor effort on all activities can the PI ensure the reasonableness of the portion of labor costs charged to his particular research award.

UI's Grants and Contract Office (GCO) officials stated that there are separate monthly financial reports that account for employee labor charges for non-sponsored activities. These reports are used to support UI's facility and administrative cost studies for negotiating its Federal indirect cost rate and according to GCO officials, are reviewed and verified by cognizant Department officials, as needed. However, such administrative officials are not in a position to know whether such employee labor costs allocated to non-sponsored activities represent actual effort devoted because they are not in a supervisory position to have first hand knowledge of an employee's work activities.

*Expenditure Confirmation Reports* - GCO generates an Expenditure Confirmation Report for each PI with direct charges to sponsored projects during the six-month effort reporting period and distributes the reports to each Department for PI review and certification. Each PI receives one Confirmation report listing each of their sponsored projects individually with the total direct grant charges segregated between salaries/wages and all other direct costs. The Confirmation reports aggregate salaries into a single-line amount for all employees that worked on the sponsored project. The subject reports do not provide any further breakdown of employee salary because PI certifications are based on prior review of the monthly grant financial reports. However, similar to the monthly financial reports, the Confirmation reports do not provide any workload information on employee salaries and/or effort devoted to other work responsibilities and activities during the effort reporting period.

For example, a [REDACTED], who charged \$32,550 of salary costs to a NSF grant, stated that [REDACTED] split his time and effort equally between the NSF and a Department of Energy (DOE) grant during FY 2006. The two Federal grants were managed by two different

PIs in different UI Departments. UI had the following documentation supporting the salary charges to the Federal grants:

- The ARS report listed the employee's 50 percent labor allocation to each of the two Federal grants. However, UI procedures did not require the ARS report be provided to PIs either during the review of the monthly financial reports for each sponsored project or the Expenditure Confirmation Report at the end of each six-month reporting period.
- The monthly financial reports reviewed for the NSF grant listed the Senior Research Scientist's name and associated monthly salary charge of approximately \$2,720 and the monthly salary and/or tuition remission costs for 15 other individuals working on the NSF project.
- The Expenditure Confirmation Report for each six-month reporting period listed the aggregate salary charges for the Senior Research Scientist and 15 other employees of \$129,521 and \$161,531 for the NSF grant along with similar charges for four additional Federal grants for which the PI was responsible. The names of the Senior Research Scientist and other 15 employees working on the NSF and other Federal projects were not identified on the Confirmation reports.

The PI certified that the aggregate salary charges of \$129,521 and \$161,531 on the Expenditure Confirmation Report "reasonably reflect the work effort or activity for each individual who was compensated during the period..." for the NSF project without being provided the ARS workload information on the [REDACTED], effort and/or salary amounts allocated to other sponsored and/or non-sponsored activities. However, without knowing the employee's effort devoted or salary allocated to the DOE grant, the PI did not have the information required to ensure that the salary amount charged to the NSF grant was reasonable relative to the individual's work on the DOE grant.

#### *Increased Risk for Misallocation of Labor Costs to NSF Grants*

Because certifying officials are not provided total employee workload information during the labor confirmation process, UI is operating at increased risk of PIs unknowingly misallocating labor costs to NSF awards. Without integrated workload information, PIs lack a valid basis to certify that the salary dollars charged to the NSF grant are reasonable and equitable relative to the employee's work activities on other sponsored projects and/or non-sponsored responsibilities.

The possibility of overcharging a NSF grant is especially relevant because UI certifies to a dollar amount based on estimates made for each sponsored project and non-sponsored activities before services are performed. Subsequently, if an employee devotes more effort on non-sponsored activities than originally planned but still spends the same level of planned effort on a sponsored project, the total salary costs for the sponsored project will decrease. Thus, a certifying official needs to know the entire level of activities for each employee to correctly attest to the salary amount charged to the sponsored project. In the situation where an individual

spends more effort on non-sponsored activities and the same planned level of effort on the sponsored project, UI must reallocate an appropriate portion of the employee's salary costs from the sponsored project to non-sponsored activities; otherwise UI charges a disproportionate amount of labor costs to the sponsored project.

Furthermore, the risk for inequitable salary allocation to NSF grants increases when an employee works on sponsored projects for different PIs. Specifically, different PIs would confirm the employee's salary charges to their sponsored projects without being aware of an employee's actual level of activity on other sponsored projects. We determined from our sample that 9 of the 30 individuals reviewed, or 30 percent, worked for multiple PIs, thereby increasing the vulnerability that UI labor costs were potentially misallocated to NSF sponsored projects.

#### *Total Employee Work Activity Available But Not Provided to Certifying Officials*

While UI's payroll distribution system has the capability through ARS to validate the allocation of total employee labor charges to all sponsored projects and other activities on an integrated basis, the University did not establish procedures requiring the ARS information be provided and utilized by certifying officials during any phase of the labor confirmation process. This occurred because UI believed such employee workload information was not needed for proper PI certification of employee labor charges to sponsored projects. Further, officials stated that ARS and other employee workload information was available online if certifying officials chose to use such information.

UI officials also noted that Federal regulations do not explicitly require certifying officials to provide after-the-fact confirmation of labor charges to non-sponsored activities, only the confirmation of sponsored labor costs is required. As such, the University was not required to provide certifying officials with any information on employee effort devoted or salary charges to non-sponsored activities. Therefore, UI reaffirmed their belief that its confirmation of salary charges to each sponsored project individually is fully compliant with Federal standards. However, the PI needs to be aware of total employee workload activities in order to verify the accuracy of salary amounts charged to his or her sponsored projects. OMB standards expect the salary charges allocated to a sponsoring agency to be accurate, thus if a PI lacks sufficient information on which to base their certification, the process cannot be relied upon to meet the Federal requirement for accurate labor charges.

#### Certification of Confirmation Reports Needs To Be More Timely

Although Federal regulations do not specify when labor effort reports should be reviewed and certified, UI officials should provide the after-the-fact confirmation of labor charges to sponsored projects as close to the end of the reporting period as possible to help ensure its reliability. Accordingly, the University's established practice required the FY 2006 Expenditure Confirmation Reports be approved and returned within 45 days of distribution for the first effort reporting period and 30 days for the second period. The 45 and 30-day turnaround periods were specified in the GCO transmittal letters distributing the Confirmation reports to the Departments.

UI is certainly to be commended for actions taken to ensure Confirmation reports were reviewed and approved by certifying officials with first-hand knowledge of actual employee effort devoted to Federally-sponsored projects and to track the return of approved Confirmation reports from the Departments. At the end of each effort reporting period, GCO compiled, generated, sorted, and distributed about 1,800 Confirmation reports to 168 different operational units within the UI Departments. It manually created a database to generate the PI distribution list and track the return of the completed Confirmation reports. Also, GCO officials stated that periodic reminder notices were sent to follow-up on delinquent Confirmation reports using an increasingly graduated scale to notify higher level management officials.

However, for the 30 sampled employees, the audit found that UI officials certified 49 of 77 Confirmation reports late by 1 to 205 days beyond the established University turnaround time, representing 61 percent of the NSF labor charges we tested. Of the late reports, two Confirmation reports were certified seven months late. The chart summarizes how much time beyond the established due dates officials took to approve the 49 late Confirmations.

**Schedule of Labor Confirmation Reports Approved Late and On Time**

<b>Number of Days Late Beyond UI Established Due Dates</b>				
Days Late	Number of Confirmations	% of Confirmations Late	NSF Salary Charges	% of Salaries Late
1 – 30	24	31%	\$193,912	24%
31 – 60	18	24%	224,728	28%
61 – 120	5	7%	44,393	6%
121 – 180	1	1%	14,804	2%
181 - 205	1	1%	8,328	1%
<b>Subtotal – Late Reports</b>	<b>49</b>	<b>64%</b>	<b>\$486,165</b>	<b>61%</b>
<b>Confirmations Approved On Time</b>				
	Number of Confirmations	% of Confirmations On Time	NSF Salary Charges	% of Salaries On Time
Timely Reports	28	36%	312,903	39%
<b>Total Reports</b>	<b>77</b>		<b>\$799,068</b>	

In addition, UI did not establish time frames for compiling and distributing the Confirmation reports after the end of each labor effort reporting period. While we found the

average 64 days taken in FY 2006 to generate and distribute the reports to be reasonable compared to established time frames at other universities, sound internal control dictates that clear written standards be established to ensure timely processes for certifying the significant amount of labor costs UI charges to Federally-sponsored projects. Without written timeliness standards, excessive preparation and distribution time for the Confirmation reports would not be measurable and readily identifiable.

Late certification of Confirmation reports for 61 percent of NSF salary charges we tested increases the risk that such certifications are less reliable as time increases past the UI established time limitations. Certifying officials primarily rely on their memory when reviewing and certifying Confirmation reports since they are not required to track and maintain records of an employee's work activities. Oftentimes, PIs have multiple awards and many staff that they are responsible for which increases the risk that their memory on the activities and amount of effort worked by staff members will be less reliable as time increases past the UI established turnaround period. For example, one UI researcher stated that he had five awards involving twelve employees and students.

While UI has communicated due dates for certifying and returning Expenditure Confirmation Reports in transmittal letters, the University has not established formal written policies for all aspects of its labor effort confirmation process to ensure timely after-the-fact certification of labor charges to Federal grants. Specifically, the University needs to establish formal timeliness standards for (a) GCO compilation and distribution of the Confirmation reports at the end of each reporting period, (b) PI review and approval of the reports, and (c) follow-up notices for delinquent reports to increasingly higher level management officials. Similarly, clear accountability needs to be assigned to senior management officials, such as Department Chairs, for timely PI certification of the Confirmation reports. Such senior officials would have more leverage than Department administrative staff or GCO personnel for ensuring PI confirmations within the University's established due dates because such senior management officials would have the responsibility for recommending faculty tenure and promotions. As such, they would have more influence in getting PIs to respond positively to the requirements for completing confirmations within the established certification period.

#### Independent Internal Evaluation of Labor Confirmation System Not Performed

OMB Circular A-21 requires the University to provide for independent internal evaluations to ensure the payroll distribution and labor effort reporting system is effective and compliant with the OMB standards. Such an evaluation requirement is a key component of an effective internal control environment and provides for monitoring the quality of performance of established control activities over time. As circumstances change over the years, evaluations are essential for determining if management objectives are being effectively and efficiently achieved and bringing any weaknesses noted promptly to management's attention for action.

However, UI did not conduct the independent internal evaluations of its payroll distribution system as required by OMB Circular A-21 standards. Such evaluations would have likely disclosed the need to enhance the University's internal control to provide for more timely and effective processes for certifying Confirmation reports. While UI officials were aware of the

evaluation requirement, they believed that the OMB Circular A-133 auditors included the required evaluation as part of its annual audit. However, our review of the FY 2005 A-133 audit working papers<sup>9</sup> and discussions with the cognizant senior auditor manager disclosed that the auditors did not perform a comprehensive systematic review of the labor effort reporting system to evaluate its effective and full compliance with OMB requirements. Specifically, the A-133 auditors stated that while they documented UI’s internal control processes for the labor effort confirmation system, they did not test the University’s compliance with the established controls. In addition, a comprehensive evaluation of the system should have included testing of salary charges to Federal awards to validate (i) UI’s Confirmation reports were approved by certifying officials with suitable means of verification that the work was actually performed, (ii) the certifications were timely based on the University’s established standards, and (iii) the reported level of effort on the Confirmation reports was accurate based on employee interviews.

Other Matters

*Questioned Costs for Activity Outside the Scope of NSF Grant*

During our review, we questioned \$6,329 of salary and associated overhead costs that a [REDACTED], improperly charged for teaching a course that was not a requirement of the NSF grant. This occurred because UI included a description of the course in the annual NSF grant progress report. Since NSF officials did not raise a concern, UI believed the instructor’s salary costs were an appropriate charge. However, pursuant to Federal requirements, costs are only allocable to a sponsored project when “. . . incurred solely to advance the work under the sponsored agreement.” Specific details of the total amount of questioned costs follow:

**Total Questioned Salary Costs**

Sample Number	NSF Grant Number	Salary Costs	Fringe Costs	Indirect Costs	Total Questioned Costs
1	[REDACTED],	\$ 3,392	\$ 1,140	\$ 1,797	\$ 6,329

*Quantifiable Standards to Define Level of Precision Needed for Reliable Labor Certifications*

For certification of salary charges to sponsored agreements, paragraph J10.b.(1)(c) of OMB Circular A-21 states that “A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.” Because the OMB A-21 provision does not quantitatively define “precision” or “tolerance”, each institution may make reasonable judgments regarding the level of precision to be permitted between the salary charges to sponsored agreements and certified effort when it performs the required after-the-fact certification of labor charges to sponsored projects. Therefore, it is essential for an institution to establish a range or variance within which they expect the documented labor effort to fall. Without quantifiable measures, UI certifying

<sup>9</sup> The FY 2005 report was the most recent A-133 audit report completed at the time of our onsite audit work.

officials lack a basis to determine how much an employee's actual effort can differ from their certified effort before a cost transfer is required to be processed in the University's labor effort reporting system. Therefore, UI should establish a "precision" or "tolerance" range of accuracy to be used for certifying the reasonableness of labor charges allocated to Federal sponsored agreements. At some universities, the acceptable variance has been established at five percent.<sup>10</sup>

## Conclusions

UI needs to improve its internal control processes to ensure the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. While OMB Circular A-21 establishes certain basic requirements for a payroll distribution system, there are many areas where the Circular does not prescribe specific and quantifiable standards. Accordingly, it is important for the University to establish its own control procedures and processes to ensure the effectiveness and integrity of its payroll distribution and labor effort confirmation process to fulfill the overall intent of the OMB requirements. Sound internal control requires the University to periodically evaluate its control mechanisms to determine if management objectives are being effectively and efficiently achieved as circumstances change over the years. Internal control is a dynamic process to meet an entity's changing needs, thus monitoring and evaluation tools are a key control component for ensuring proper UI stewardship of Federal grant funds.

## Recommendations

We recommend that the NSF Director of the Division of Grants and Agreements and the Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to implement the following recommendations:

1. Work with UI to enhance its internal control structure to provide for an effective and timely labor certification process for ensuring the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. At a minimum, the University should:
  - a. Ensure that certifying officials are provided and utilize total employee workload information during the confirmation process to ensure the reasonableness of labor charges allocated to each Federally-sponsored project.

## **UI Response**

UI believes its current labor confirmation process provides PIs adequate documentation and access to departmental resources needed to properly analyze and confirm labor costs. Furthermore, the University noted the current process was reviewed and approved by

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<sup>10</sup> A March 2007 report entitled "Policies and Practices: Compensation, Effort Commitments, and Certification," issued by the Council on Governmental Relations, stated that the 5-percent standard used by some universities was based on a 1979 interpretation by the prior Department of Health, Education, and Welfare stating "As a general rule of thumb, a change applicable to a given project or activity of 5% or more of an employee's total effort would warrant an adjustment by the employee or the official."

both NSF and its cognizant audit agency in 1993 pursuant to recommendations from a prior NSF audit report. Nevertheless, UI does agree with the audit recommendation and will provide PIs access to total employee workload information for academic and graduate appointments through its new web-based electronic labor confirmation system that is currently under development.

### **Auditor's Comments**

UI's proposed corrective actions are a positive step to updating a labor confirmation process that was established 15 years ago. However, because UI is not providing the certification official with each employee's total workload on monthly grant financial reports, the University needs to strengthen its internal controls by developing a procedure clearly requiring PIs to access and use the total employee workload information when confirming labor costs on Federally-sponsored projects. In terms of labor costs, certification officials are currently only approving total aggregate labor costs for all employees charging the Federal grant during the Confirmation report period. Certification officials could unintentionally misallocate labor costs because they are not aware of the total employee workload information. In addition, until UI's new web-based electronic labor confirmation system is implemented, the University should ensure that such employee workload information is currently made available and used by PIs when confirming labor costs. Therefore, we reaffirm our audit recommendation.

- b. Institute formal written standards to improve the timeliness for review and approval of Expenditure Confirmation Reports as follows:
  - i. Establish the maximum number of days after the end of the labor effort reporting period to compile and distribute the Confirmation reports to the Departments for PI certification.
  - ii. Establish the maximum number of days after Confirmation reports are distributed for PI review and approval.
  - iii. Establish procedures and time frames for reminder notices to follow-up on delinquent Confirmation reports using an increasingly graduated scale to higher level management officials.
  - iv. Assign specific UI senior management officials, such as Department Chairs, accountability for timely PI review and approval of Confirmation reports.

### **UI Response**

UI agrees to provide additional guidelines in its policies and procedures for timely distribution, review and approval, and follow-up of Confirmation reports and for assigning accountability for such reviews.

### **Auditor's Comments**

Once implemented, UI's proposed corrective actions should address our audit recommendation; provided its new written policies and procedures establish explicit time frames for timely confirmation of labor costs to Federally-sponsored projects and assign clear accountability for such reviews to appropriate senior UI management officials.

2. Establish a formal written requirement that explains when and how often to conduct an independent internal evaluation of the payroll distribution and labor effort reporting system to ensure its effectiveness and full compliance with Federal, NSF, and University standards. Such a requirement should include procedures to ensure an effective and systematic review that will identify reasons for any deficiencies and make appropriate recommendations, identify the specific UI office responsible for performing the evaluation, and how often such an evaluation should be conducted.

### **UI Response**

UI will continue to include the payroll distribution and effort reporting system in the Office of University Audits annual risk assessment process. The frequency of the audit will be based on criteria used during the risk assessment process such as changes to the system, regulations, or personnel; feedback received from senior management; changes in the industry; and timing since the last review.

### **Auditor's Comments**

UI's response did not fully address the intent of the audit recommendation. While it is appropriate to have the Office of University Audits conduct the independent internal evaluation and to use its annual risk assessment process in determining when to conduct the evaluation, UI needs to establish an explicit requirement in its written labor effort reporting policy and procedures for the Federally-required evaluation. Therefore, we reaffirm the audit recommendation.

3. Resolve the questioned salary costs and associated fringe benefit and indirect costs totaling \$6,329. (see details on page 13)

### **UI Response**

UI has removed the questioned salary costs and associated fringe benefits and indirect costs from the applicable NSF grant expenditures.

### **Auditor's Comments**

UI's actions are fully response to the audit recommendation. During the audit resolution process, the University should provide NSF with the journal entry documenting removal of the questioned grant costs.

University of Illinois' Comments to Draft Report

UNIVERSITY OF ILLINOIS  
Chicago • Springfield • Urbana-Champaign

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1901 S. First Street  
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February 28, 2008

[REDACTED]

Mayer Hoffman McCann, P.C.  
12761 Darby Brooke Court, Suite 201  
Woodbridge, Virginia 22192

Subject: UIUC Comments on Draft Report of the Effort Reporting System Audit

Dear [REDACTED]

Enclosed are comments on the Draft Report of the Effort Reporting System Audit of the University of Illinois, Urbana-Champaign for your consideration and inclusion as an appendix to the final report.

We appreciate the open communications provided by you and Wilfredo Corps (MHM) during the audit engagement and also extend our thanks to Joyce Werking (NSF) for receiving and considering institutional input related to the preliminary findings.

Please feel free to contact me [REDACTED] if you have any questions related to the University's response.

Sincerely,

[REDACTED]

For the University:

[REDACTED]

Enclosure

cc: Joyce Werking, Acting Senior Audit Manager, NSF OIG

## Comments

### Information Provided During Labor Confirmation Process (recommendation 1.a.)

UI appreciates NSF's recognition that UI's payroll distribution and labor effort reporting systems are compliant with OMB A-21 requirements and that UI has controls in place to preclude overcharges of total employee labor cost. UI disagrees that there is an increased risk of misallocation of labor costs to NSF grants by not providing the PI with 100 % effort on unrelated sponsored projects and non-sponsored activities for which they would not have any first hand knowledge.

UI believes our labor confirmation process provides the PI with adequate documentation and access to departmental resources needed to properly analyze and confirm labor costs. This is supported by the fact that there were not any audit findings related to the misallocation of labor costs. In addition, our current process was previously reviewed and approved by NSF and ONR in 1993 following recommendations made in a 1992 NSF compliance audit report. A-21 provides for flexibility that accommodates our current process.

UI is amenable to providing an additional tool to the PI in the labor confirmation process. In accordance with current Federal initiatives, UI believes any resource provided should be made available in a manner that does not increase faculty administrative burden.

### Confirmation Timeliness (recommendation 1.b.)

UI appreciates NSF's recognition of actions taken to ensure labor Confirmation reports were appropriately reviewed and approved and for efforts taken to track the return of approved Confirmation reports. UI has processes and procedures in place for the distribution and tracking of reports, but they are not formally included in written policies and procedures.

UI believes departmental and PI responsibilities for timely confirmations are appropriately defined in the semi-annual transmittal letter to Unit Heads. GCO informs units that confirmation forms are crucial and that when missing, UI is at risk for disallowance of project costs. The letter also states that PIs and their units are responsible for assuring that all charges are reasonable, allocable, and allowable and that the charges directly benefit the project. The confirmation due date is defined in each cover letter along with a checklist of the confirmation reports that the Unit Head is responsible for collecting. Unit Heads are also directed to supply PIs a copy of the cover letter with their confirmation reports. If reports are delinquent, GCO sends notices to PIs, Unit Heads, and progressively to higher management levels.

UI wants to highlight that of the 49 late reports almost half (24) were returned within a 30 day time period and another 18 were returned within 60 days. Only 7 of the 49 late reports were delinquent by more than 60 days.

UI also wants to emphasize that per UI cost transfer policy, PIs or other responsible officials with suitable means of verification are to review monthly financial statements and initiate any corrections in a timely manner. Reviewing costs on a monthly basis eliminates the need to primarily rely on memories when PIs semi-annually review and confirm salaries thereby reducing the risk of unreliable confirmations.

UI is amenable to providing additional guidelines in UI policies and procedures.

Independent Evaluation of Labor Confirmation System (recommendation 2.)

As noted in the audit report, UI officials are aware of the A-21 requirement for evaluation and believed the A-133 audit would have covered Federal requirements.

Additionally, the Office of University Audits performs assurance services to evaluate the University's risk management, internal control, and governance processes which are designed to ensure compliance with University policies and procedures, state and federal laws and regulations, contractual obligations, and good business practices. The Office of University Audits had incorporated an evaluation of the UI effort reporting system into their 2006 annual risk assessment process which resulted in a planned audit for the fiscal year 2007. The audit was deferred so as not to duplicate efforts with the NSF audit.

UI will continue to include the payroll distribution and labor effort reporting system into the Office of University Audits annual risk assessment process.

Other Matters (recommendation 3.)

In fulfillment of the educational outreach component of the grant, the course in question was included in the [REDACTED] grant progress report. UI believed that the salary charges were appropriately charged to the project, but did not credit tuition revenues to the grant as program income. The salary charges have been removed.

**Recommendations**

*1. Work with UI to enhance its internal control structure to provide for an effective and timely labor certification process for ensuring the reliability of the after-the-fact confirmation of actual salary charges to Federal awards. At a minimum, the University should:*

- a. Ensure that certifying officials are provided and utilize total employee workload information during the confirmation process to ensure the reasonableness of labor charges allocated to each Federally-sponsored project.*

UI plans to provide PIs access to total employee workload information for academic and graduate appointments (except those with hourly appointments) through the new web-based electronic effort confirmation system that is currently under development.

- b. Institute formal written standards to improve the timeliness for review and approval of Expenditure Confirmation Reports as follows:*
- i. Establish the maximum number of days after the end of the labor effort reporting period to compile and distribute the Confirmation reports to the Departments for PI certification.*
  - ii. Establish the maximum number of days after Confirmation reports are distributed for PI review and approval.*
  - iii. Establish procedures and time frames for reminder notices to follow-up on delinquent Confirmation reports using an increasingly graduated scale to higher level management officials.*
  - iv. Assign specific UI senior management officials, such as Department Chairs, accountability for timely PI review and approval of Confirmation reports.*

UI agrees to provide guidelines for timely distribution, review and approval, and follow-up of Confirmation reports and for assigning accountability for such reviews in UI policies and procedures.

*2. Establish a formal written requirement and conduct an independent internal evaluation of the payroll distribution and labor effort reporting system to ensure its effectiveness and full compliance with Federal, NSF, and University standards. Such a requirement should include procedures to ensure an effective and systematic review that will identify reasons for any deficiencies and make appropriate recommendations, identify the specific UI office responsible for performing the evaluation, and how often such an evaluation should be conducted.*

UI will continue to include the payroll distribution and labor effort reporting system into the Office of University Audits annual risk assessment process. The frequency of the audit will be based on criteria reviewed during the process such as changes to the systems, regulations, or personnel; feedback received from senior management; changes in the industry; and timing since last review.

*3. Resolve the questioned salary costs and associated fringe benefit and indirect costs totaling \$6,329. (see details on page 13)*

UI has removed the questioned salary costs and associated fringe benefits and indirect costs.