

NATIONAL SCIENCE FOUNDATION
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**OFFICE OF
INSPECTOR GENERAL**

MEMORANDUM

Date: January 14, 2010

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: Michael R. Kuklok /s/
Senior Audit Manager, Office of Inspector General

Subject: NSF OIG Report Number 10-1-003
Audit of Effort Reporting System, University of Nevada – Reno

Attached is the final report prepared by Williams Adley & Company, an independent public accounting firm, on the audit of the payroll distribution and effort reporting system used by the University of Nevada – Reno (Reno) 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 Reno's comments is included as Appendix C to the audit report.

The audit found that Reno's payroll distribution and effort reporting system substantially supports payroll costs charged to NSF awards. However, our review of 30 sampled employees disclosed that the University's new web-based effort reporting system did not provide faculty effort reports that consistently reflected all compensated work activities on an integrated basis as required by Federal regulations. Furthermore, instances of noncompliance with Federal, NSF, or University effort reporting requirements were identified including: faculty salaries exceeding NSF's two-ninths rule, salary cost transfers processed without proper justification, and costs charged to NSF grants that did not directly benefit the research project. The instances of noncompliance and the systemic nature of the control weaknesses identified raises concerns about the reliability of the remaining \$1.7 million of FY 2008 labor charges to NSF grants and the salary portion of the University's other \$78 million of Federal sponsored awards.

We consider Reno'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 Department of Health and Human Services (DHHS), 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 audit report issuance 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 DHHS, determines that Reno has adequately addressed the recommendations and proposed corrective actions have been satisfactorily implemented. Please note that we have sent a copy of the audit report under separate cover to Mr. Jon D. Crowder of DHHS-OIG.

OIG Oversight of Audit

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

- Provided a detailed audit program for the agreed-upon procedures review and ensured Williams Adley'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 by accompanying Williams Adley's auditors onsite at the grantee;
- Coordinated periodic meetings with Williams Adley and OIG management to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Williams Adley, to ensure compliance with Generally Accepted Government Auditing Standards and the NSF Audit Program; and
- Coordinated issuance of the audit report.

Williams Adley & Company is responsible for the attached audit report on Reno's payroll distribution and 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 that was extended to us during our review. If you have any questions, please feel free to call me at 703-292-4975 or Joyce Werking at 703-292-8097.

Enclosure

cc: Gilbert Tran, Technical Manager, Office of Management and Budget
Alexander Wynnyk, Branch Chief, BFA/DIAS
Rochelle Ray, Team Leader, BFA/DIAS



Audit of Effort Reporting and Payroll Distribution System

University of Nevada - Reno

Reno, Nevada

For the Period July 1, 2007 to June 30, 2008

**National Science Foundation
Office of Inspector General**

January 13, 2010

OIG 10-1-003

Audit Performed by:
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EXECUTIVE SUMMARY

This report provides the results of our audit of the payroll distribution and labor effort reporting system used by the University of Nevada, Reno (Reno), to validate salaries and wages charged to National Science Foundation (NSF) grants. During fiscal year (FY) 2008, the University had total federal grant expenditures of \$84.7 million, of which \$6.6 million or 8 percent was directly funded by NSF. Approximately \$2.2 million was for labor costs directly charged to NSF awards. 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 to assess the adequacy of internal controls to ensure salary and wage costs claimed on NSF grants are properly managed, accounted for, and monitored.

Reno generally has a well established federal grants management program. In recent years, the University has made significant improvement in its payroll distribution and effort reporting system by establishing a new web-based effort report system (ERS), issuing new effort reporting policies and procedures, and hiring a full-time Effort Reporting Specialist. The new ERS and the additional controls have resulted in timelier certification of effort reports and essentially eliminated any incidences of missing employee effort reports. Review of \$452,985 in FY 2008 NSF salary charges for 30 sampled employees generally disclosed that such costs were adequately supported.

However, the audit disclosed internal control weaknesses Reno needs to correct to ensure an effective and efficient effort reporting system that is fully compliant with all federal, NSF, and University requirements. Contrary to federal standards, the University's new ERS did not appropriately provide faculty effort reports that consistently reflected all compensated work activities on an integrated basis. Also, we found instances of noncompliance with NSF and University effort reporting requirements including: faculty salaries exceeding NSF's two-ninths rule, salary cost transfers processed without proper justification, and unallowable costs charged to NSF grants that did not directly benefit the research project. Specifically, review of \$452,985 in FY 2008 NSF salary charges for 30 sampled employees identified the following exceptions:

- Two of eight sampled faculty members improperly charged \$27,792 of salaries that exceeded NSF's two-month salary limitation.
- Two of the 30 sampled employees had salary cost transfers without adequate explanation and justification. Such cost transfers totaling \$4,250 were improperly charged to three NSF grants within the last month of the award periods.
- Three employees charged \$5,218 to NSF grants that did not directly benefit the research projects.

Furthermore, Reno's ERS did not properly track and report Principal Investigator (PI) effort committed on federal grant proposals. Of the eight sampled faculty members reviewed, one researcher's effort report did not reflect cost shared effort of \$20,360 devoted to two NSF grants.

As a result, Reno provides less assurance to federal sponsoring agencies that effort reports are reliable in supporting salaries and wages charged to sponsored projects and documenting the level of PI effort explicitly committed in grant proposals to accomplish research objectives. The instances of noncompliance and the systemic nature of the control weaknesses identified raises concerns about the reliability of the remaining \$1.7 million of FY 2008 labor charges to NSF grants and the salary portion of the University's other \$78 million of federal sponsored awards.

These weaknesses occurred because prior to establishing its new web-based ERS system in January 2007, Reno did not place sufficient emphasis on labor effort reporting. While significant improvements have been made, the audit identified additional control weaknesses in the new ERS system that need to be addressed. Specifically, the audit found that manual procedures to remedy compatibility issues between the new ERS and existing Reno grants management systems resulted in faculty effort reports that did not provide for accurate reporting of sponsored and all other PI work activities on an integrated basis. In addition, the University lacked (i) policies implementing NSF's two-month limitation on faculty salary charges, (ii) adequate oversight to ensure sufficient justifications for labor cost transfers, and (iii) procedures to ensure the proper reporting of committed faculty effort on sponsored projects. Also, contrary to federal standards, Reno had not performed an independent internal evaluation to ensure the ERS was effective and compliant with OMB, NSF, and University requirements.

To address these deficiencies, we made recommendations to fully integrate the effort reporting process, update and revise policies to fully comply with federal and NSF standards, establish a mandatory training program for all individuals involved in the effort reporting process, and provide additional oversight of the process. Finally, we recommended that Reno resolve the \$54,154 in questioned salary and associated fringe benefit and indirect costs.

A draft report requesting comments on the audit findings and recommendations was issued to Reno. The University generally concurred with the recommendations and in recognition of the weaknesses identified in the report, has revised or plans to revise certain Reno policies and procedures to address opportunities for improvement in effort reporting and cost transfers.

Reno's responses, once fully implemented, should address the audit recommendations. NSF should work with the cognizant audit agency and/or Reno to ensure the University develops an acceptable corrective action plan to resolve each audit recommendation. We have summarized Reno's responses and provided our comments after each recommendation in the report. The University's complete response to the draft report is included as Appendix C.

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ACRONYMS

| | |
|------|---|
| ERS | Maximus Effort Reporting System |
| NSF | National Science Foundation |
| NSHE | Nevada System of Higher Education |
| OIG | Office of Inspector General |
| OMB | U. S. Office of Management and Budget |
| OSP | Office of Sponsored Projects |
| PAF | Payroll Action Form/Personnel Action Form |
| PI | Principal Investigator |
| Reno | University of Nevada - Reno |

INTRODUCTION

Background

Approximately one third of the National Science Foundation award funds are provided for salary and wages, amounting to about \$1.3 billion annually at universities. Also, 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. The objective is to assess the adequacy of internal controls to ensure salary and wage costs claimed on NSF grants are properly managed, accounted for and monitored, and are allowable. This audit, involving the University of Nevada, Reno (Reno), is one of the planned reviews of such labor effort distribution systems.

Reno was established in 1874 as the first university in Nevada. The University is one of several operating campuses within the Nevada System of Higher Education (NSHE) and has over 16,000 students and employees on its 250 acre campus. Reno served the State of Nevada as its only state-supported institution of higher education for almost 75 years.

The Office of Sponsored Projects (OSP) serves as the signature authority on behalf of the Reno campus within the Nevada System of Higher Education. It receives awards issued by NSF and is the legal fiduciary responsible for the conduct of activities and commitments under the award. OSP is responsible for Reno management and oversight of federal grant programs. Primarily, OSP provides pre-award and post-award administrative services for sponsored programs, develops policies and procedures for federal grants management, and is charged with implementing appropriate campus training programs. The Controller's Office is responsible for the overall internal controls over the University's financial activities while OSP is responsible for overseeing the process for compiling, generating, and maintaining effort reports within the framework of federal regulatory requirements and University policy.

Senior administrative officials located within each academic department are tasked with the management and oversight of their sponsored projects to ensure compliance with federal and University policies and procedures. They typically assist and advise faculty members on federal grants management and review financial information to ensure that award accounts and budgets are created accurately in the University's financial system, award expenditures are monitored on a monthly basis, and charges to federal awards are appropriate. Principal Investigators (PIs) have primary responsibility for all aspects of federal grants including approval of all charges and ensuring that the research is conducted in accordance with the award terms and conditions.

Objective, Scope and Methodology

Audit Objectives. Our audit objectives were: (a) to evaluate whether Reno 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 whether the salaries and wages are allowable, allocable, and reasonable in accordance with federal cost principles and NSF grant terms and conditions.

Scope and Methodology. The audit focused on Reno's 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 the control objectives, the NSF 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 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 Reno population of labor costs charged to NSF grants. Specifically, the FY 2008 salary and wage costs for the 30 sample employees tested amounted to \$452,985. Our statistical sample was derived from a total population of 195 employees, who charged over \$2 million in salaries to NSF grants during FY 2008. This population excluded (a) any employee with total salary costs of \$100 or less and (b) all salary 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 Reno's policies and procedures to federal and NSF requirements for allocating labor costs to federal awards and interviewed Reno personnel to gain an understanding of the controls in place to ensure salary and wages charged to NSF awards were reasonable and allowable. For each statistically selected salary record, we obtained the following documentation to determine whether labor costs Reno charged to NSF awards met the control objectives:

- Effort reports documenting 100 percent of each employee's compensation allocated to sponsored and non-sponsored projects for each reporting period.
- Appointment letters or other documents supporting the approved annual salary for employees.
- Reports detailing the actual salary and wages charged to sponsored projects and other activities for each employee during each reporting period.
- Award documents to determine whether the grant had any terms and conditions that would affect allowable labor charges to the award.

To ensure that salary and wage costs charged to NSF awards were incurred and benefited NSF awards, we corroborated the information on the effort 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 addition, we interviewed administrative officials in academic departments of the sampled employees, as applicable, to determine how they met the federal and University certification requirement on verifying effort reports to ensure the work was actually performed as shown on the reports. We also discussed with department administrative officials their procedures for processing and monitoring employee salary charges to federal grants. Additionally, we interviewed selected PIs to determine the number of projects and personnel they were responsible for and their processes for verifying effort reporting.

To confirm that faculty effort pledged in grant proposals contributed to accomplishing grant objectives, we reviewed processes for reporting and tracking PI effort and whether the associated salary costs were properly included in the organized research base for computation of the University's indirect cost rate. We reviewed award documents for all federal grants that a faculty member worked on during FY 2008 to determine the effort pledged on each project and compared this proposed effort to the approximate percentage of actual effort worked on the project. In addition, we determined whether and how Reno tracked and documented PI effort on sponsored projects when no faculty salary support was requested or reimbursed by the federal government.

To determine whether labor costs were accurately recorded and charged to NSF, we compared the amounts in appointment letters or other documentation supporting salaries and wages paid to the amounts recorded in the Human Resource Management System and Advantage accounting system for each individual in our selected sample. We recalculated salary and wage costs charged to NSF projects by using the salary shown on supporting documentation and apportioning it by the period of time and percent of effort represented on the effort reports. We also reviewed labor transactions to determine whether Reno followed federal, NSF, and University requirements on charging labor costs to NSF projects.

To evaluate whether Reno officials certified effort reports in a timely manner, we compared the date the effort reports were available for pre-review to the date the reports were certified. Timeliness was tested against Reno's internal policy requiring that effort reports be completed within 30 days after pre-review by each departmental coordinator for each monthly, semi-annual, and faculty overload report.

Finally, we reviewed prior audit reports of Reno's federal grants management program performed by OMB Circular A-133 auditors and the University's internal auditors to determine if there were any audit findings and recommendations on labor effort reporting. Specifically, we interviewed selected internal audit staff and reviewed the working papers, as needed, to gain an understanding of the scope and procedures used in any audits of Reno's payroll distribution reporting system or University management of labor costs charged to federal projects. We contacted Reno's A-133 auditors to discuss their overall audit scope and procedures used for

reviewing salaries and wages charged to federal awards and their review of the labor effort reporting system. Accordingly, we reviewed the most current A-133 audit working papers available 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.

Onsite audit work at the Reno campus was performed during two-week periods in February/March and April 2009. The remainder of the audit work was completed through phone interviews, emails, and documentation requests through July 2009. We were engaged to perform the above audit objectives by the NSF OIG. The performance 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

FINDINGS AND RECOMMENDATIONS

Finding 1 - ERS Improvements Needed to Comply with Federal and University Requirements

Federal Requirements for Labor Effort Reporting

OMB Circular A-21, *Cost Principles for Educational Institutions*, requires certification of labor effort contributed by employees on federal awards to reasonably reflect the actual labor effort contributed by the employee to meet award objectives. The effort reporting system must provide for after-the-fact confirmation of employee activity by the employee conducting the work being reported or by an official that is in a position to know whether the work was performed. The system must “encompass both sponsored and all other activities on an integrated basis” to produce an equitable distribution of charges for employee compensated activities. The Circular also requires universities to provide for independent internal evaluations to ensure the effort reporting system’s effectiveness and compliance with federal standards. As such, “the recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles” and “must provide for adequate documentation to support costs charged to sponsored agreements.”¹ In addition, NSF policy limits its funding of faculty salary to two-ninths of their academic salary.

Consistent with the Circular A-21 requirement for “sound business management practices,” OMB Circular A-110² requires entities receiving federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with federal laws, regulations, and program compliance. However, although Reno’s effort reporting system substantially supports payroll costs charged to NSF grants, we found internal control improvements are needed in certain effort reporting areas to ensure full compliance with federal, NSF, and University requirements. Specifically, review of 30 sampled employees, whose 77 labor effort reports supported \$452,985 in FY 2008 NSF salary charges, disclosed that (i) effort reports for faculty salary charges to NSF grants did not always reflect all compensated work activities on an integrated basis as required by federal standards, (ii) faculty salaries exceeded NSF’s two-ninths rule, and (iii) salary cost transfers were processed without proper justification. In addition, Reno did not ensure that all NSF salary charges directly benefited the research project or were correctly charged.

¹ Paragraphs C.4.d.(1) and A.2.e., respectively, of OMB Circular A-21, *Cost Principles for Educational Institutions*.

² Section .21 of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organization*, requires that a grantee’s financial management system provide for “Effective control over and accountability for all funds, property, and assets. . . written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable cost principles and terms and conditions of the award.”

As a result, we have questioned \$37,260 in salary and tuition fees and \$16,894 in associated fringe benefits and indirect costs. Further, NSF has less assurance that Reno effort reports are fully reliable in reasonably supporting salary and wages charged to its sponsored projects. The systemic nature of these control weaknesses raises concerns about the reliability of the remaining \$1.7 million of FY 2008 labor charges to NSF grants and the salary portion of the University's other \$78 million of federal sponsored awards.

Reno's Effort Reporting System

Pursuant to the OMB requirements, Reno implemented a web-based Effort Report System (ERS) in January 2007, with the first reports published in the summer of 2007. Reno has established monthly effort reports for classified employees, two semi-annual effort reports for salaried employees, and two additional effort reports for faculty overload salary charges to sponsored projects during non-contract days. The Office of Sponsored Programs (OSP) is primarily responsible for proper ERS administration.

Reno utilizes a multi-purpose Payroll Action Form (PAF) to allocate an individual's salary to specific sponsored projects based on an estimated level of effort to be devoted to the research project. Each Academic Department is responsible for completing and executing PAFs for its employees and sending the forms through the department's approval process. The PAF must be entered into the HR System prior to generating payroll. The OSP Effort Reporting Specialist obtains the payroll upload, initiates the process to generate ERS reports and issues an email notification to each Department's pre-reviewer when effort reports are available for review. Reno's effort reporting policy states that generally "... employees who work on a sponsored project are expected to certify his/her own effort report." The principal investigators (PI) are primarily responsible for ensuring that all individuals who have worked on a project complete their effort reports in a timely and accurate manner. The ERS policy requires that effort certification occur within 30 days after the pre-reviewer receives initial notification of the effort reporting cycle. If effort reports are not certified within this timeframe and the certifying official is not responsive to reminder notices during the next 30 days, the responsible PI is placed on an OSP suspension list and the sponsored project account is disabled for any additional charges.

Overload PAFs are prepared for faculty members to charge salary to sponsored projects during non-contract periods over the summer and winter/spring breaks. Reno policy limits such faculty overload compensation to a maximum of 50 percent of an individual's academic base salary. Accordingly, the University has established an Overload PAF Access Database to track and monitor compliance with the 50-percent maximum limitation. The OSP Effort Reporting Specialist uses this database to identify late faculty salary charges requiring manual certification by retroactive effort reports. In such cases, hard copy retroactive effort reports are prepared and distributed to the PI for review and certification and returned to OSP.

Effort Reporting System Does Not Provide Integrated Reporting of Faculty Overload Salary Charges to Sponsored Projects

OMB regulations require a payroll distribution system to “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* . . .” However, Reno's ERS does not consistently produce faculty overload effort reports that accurately include all the researcher's compensated work activity during the reporting periods. Specifically, when the University is required to manually issue Retroactive Effort Reports to certify late faculty overload salary charged to federal grants, such reports do not provide proper "*integrated*" reporting of all employee work effort. This occurs because only the portion of salaries paid late to the researcher is reported and not the total compensation for all employee work activities on an integrated basis as required by OMB standards.

For example, if a PI equally splits his summer work effort between a NSF and NASA grant, the individual's effort report should reflect 50 percent effort on each award. However, if the individual submits a late PAF for the NSF salary after the closing date for the summer faculty overload reporting period, the PI will incorrectly have both a web-based ERS report reflecting 100 percent effort on the NASA grant and a manual Retroactive Effort Report with 100 percent effort on the NSF grant.

Late faculty submission of overload PAFs to charge salaries to federal sponsored projects contribute to the need to issue manual retroactive effort reports, which result in noncompliant reporting. Specifically, review of eight PIs in the 30 sampled employees, with total FY 2008 NSF salary costs of \$126,263, disclosed that four PIs submitted 15 overload PAFs retroactively to charge over 30 percent of such salaries to NSF grants instead of allocating such salaries on a prospective basis. Such overload PAFs were submitted a few days to six months after the PIs actually performed the work on the NSF grants. While most of the overload PAFs were processed prior to the required ERS reporting date, \$9,939 in salary for one PI was reported in the wrong effort reporting period due to the late submission. Thus, the subject PI's salary charges were not accurately reported and certified in the proper period when the work on the NSF grant was actually performed.

Such a substantial percentage of faculty overload salaries charged to NSF grants on a retroactive basis increases the risk of error that such costs are not properly charged to federal sponsored projects when the work was actually performed and result in Retroactive Effort Reports that are not compliant with federal standards. Our analysis of the Overload PAF Access Database disclosed that about five percent of total faculty salaries charged to all federal grants for the summer 2008 ERS period required manual certification by retroactive effort reports.

Faculty Salary Charges Exceed NSF's Two-Month Limitation

Reno allowed faculty to charge salary to NSF grants in excess of NSF limitations. This limitation, which includes salary funded from all NSF grants, is known as the NSF's two-ninths rule³ and limits faculty compensation to no more than two months of a PI's academic base salary. However, two of eight faculty members sampled, with total FY 2008 NSF salary charges of \$126,263, exceeded NSF's salary limitations. As a result, NSF was erroneously charged \$27,792 in salaries and \$12,342 in related fringe benefits and indirect costs. Specific details of the salary overcharges follow:

- A PI worked on one NSF grant, two NSF pass-through grants, and one Reno-funded research project during FY 2008 and charged \$68,630 in total overload salaries. Of this amount, \$55,693 was charged to the three NSF funded awards, which exceeded two-ninths of the faculty member's academic base salary by \$19,425.
- Another PI similarly worked on two NSF grants, one NSF pass-through grant, and one private-funded award and received total FY 2008 overload salary of \$40,762. Of this amount, \$29,079 was charged to the NSF funded awards, which exceeded the two-month limitation by \$8,367.

The total excess salaries charged to NSF grants accounted for about 22 percent of the \$126,263 in FY 2008 faculty salaries we reviewed from total faculty salaries of \$831,012. Thus, Reno has less assurance that the remaining FY 2008 faculty salaries of \$704,749 charged to NSF grants are not similarly at risk for non-compliance with the salary limitations.

Cost Transfer Justifications Need Improvement

Although Reno's University Administrative Manual provides general guidelines for when cost transfers "may" be appropriate, it does not establish specific procedures for documenting the reasons and/or justifications for cost transfers. However, the University's Sponsored Projects Manual does require that all cost transfers have documented justification. Specifically, Paragraph 11.4 states:

"The transfer of expenses must be supported by documentation that explains how the error occurred. Extensive supporting documentation must be provided for transfers older than 90 days, or occurring during the last month of an award, or after the award has expired."

Our review of seven salary cost transfers, totaling \$8,616 for four of the 30 sampled employees, found inadequate explanation documenting the need to transfer the wages between different funding sources for two of the four individuals. Of greater concern was the timing of the

³ Paragraph V.B.1.a.(ii)(b) of NSF's *Award and Administration Guide* states that ". . . NSF policy on funding of summer salaries (known as NSF's two-ninths rule) remains unchanged: proposal budgets submitted should not request, and NSF-approved budgets will not include, funding for an individual investigator which exceeds two-ninths of the academic year salary. This limit includes summer salary received from all NSF-funded grants."

transfers because five of the seven cost transfers occurred within the last month of the NSF award period and totaled \$4,250. As such, these costs are being questioned due to the lack of adequate justification pursuant to the University's policy. The following examples illustrate these weaknesses:

- A graduate student was working both as a Reno teaching and research assistant in FY 2008. Her total NSF salary charges of \$3,375 on two grants resulted from cost transfers from other University non-sponsored accounts. These transfers were all processed during the last month of each NSF grant, thus requiring extensive explanation pursuant to established Reno policy. However the justifications only stated the labor costs were being “recharge[d] to correct account.”⁴
- Another graduate student worked on two sponsored projects with related research objectives, of which one was funded by NSF. Reno charged the student's salary to the NSF grant from September through December 2007 until the privately-funded grant was received, at which time, his salary charges were allocated to the new project. However, during the last month of the NSF grant in March 2008, Reno transferred \$875 of the student's January 2008 salary to the NSF project without sufficient detailed explanation. The justification only stated that the transfer was to account for a “transitional change” from one project to another and the change reflected the student's actual effort.

Furthermore, the OSP Effort Reporting Specialist, responsible for reviewing all labor cost transfers, agreed that most justifications only provide minimal explanation and could be improved. Because the ERS is not integrated with the University's grants accounting system, the Specialist is tasked with ensuring that cost transfer documentation is manually prepared, approved, and posted in the grants accounting system to match any ERS revisions made by department pre-reviewers or certifiers during the web-based review and approval process. The OSP Effort Reporting Specialist manually tracks and validates that such labor cost transfers are properly processed within 30 days as required by ERS policy. However, she stated that her role is only to ensure that the cost transfers are properly posted to the grants accounting system, not to evaluate the adequacy of the justifications provided for transferring the costs.

The absence of adequate explanation for one half of the cost transfers we reviewed for our sampled employees creates an environment in which inaccurate or inappropriate costs could be charged to federal projects for the purpose of utilizing unexpended grant balances. Therefore, given the lack of the overall adequacy of cost transfer justifications, NSF has less assurance that the remaining FY 2008 labor cost transfers into and out of NSF grants, totaling \$70,866, were compliant with the federal and University's policy for proper supporting documentation for sponsored project charges.

⁴ While the graduate student certified her own effort reports, she stated that she was not aware of the name of the six research projects on which she had effort reported or the name of the responsible PIs.

Salary Charges Not Directly Benefiting NSF Projects

Reno incorrectly charged \$5,218 in salary and tuition fees to NSF grants that did not benefit the research projects. These charges included (i) two of 14 graduate students reviewed that inappropriately charged \$1,468 of tuition remission costs to NSF projects on which the individuals had not worked and (ii) a part-time employee that improperly charged \$3,750 of full-time salary. A detailed description of these charges follows:

- Tuition remission costs: One graduate student charged \$1,016 of tuition assistance for an entire semester to an NSF grant to which there were no corresponding salary charges. Another graduate student disproportionately charged an NSF grant \$452 for tuition assistance not corresponding to salary charges made to the project during the same period.
- Part-time employee: A temporary faculty researcher charged full-time salary from July to September 2007 to an NSF grant even though her work schedule had been reduced to 18 hours per week during the time period. While the researcher's monthly full-time salary was correctly reduced in October 2007, consistent with her reduced work schedule, no prior period adjustment was made to reimburse the NSF grant for prior salary overcharges totaling \$3,750.

Effort Reporting System May Produce Unreliable Effort Reports and Excess Labor Charges

The internal control weaknesses and instances of noncompliance with federal, NSF, and University policy and procedures lessen the assurance that Reno effort reports fully support the \$452,985 of sampled NSF salary charges reviewed. More significantly, the nature of these control weaknesses raises further concerns about the adequacy of support for the remaining \$1.7 million of FY 2008 labor charges to NSF grants, as well as the salary portion of Reno's other \$78 million of federal awards. Further, Reno's lack of policies and procedures on NSF's two-ninths rule for faculty compensation and proper oversight of cost transfers and graduate student tuition charges allowed it to overcharge NSF \$37,260 in grant costs and \$16,894 in associated fringe benefits and indirect costs (see Appendix A for chart of questioned costs).

Factors Contributing to Effort Reporting Weaknesses

These weaknesses occurred because prior to establishing its new web-based ERS system in January 2007, Reno did not place sufficient emphasis on labor effort reporting. While significant improvements have been made, the audit identified additional control weaknesses in the University's new ERS process that need to be addressed. Specifically, the audit found that (i) effort reporting policies, procedures, and implementing guidance were not always clear and comprehensive; (ii) formal grants management training was not provided to all personnel with effort reporting responsibilities; and (iii) a formal oversight and monitoring program had not been established.

Lack of Integrated Reporting of Faculty Overload Salaries. Reno has not established adequate ERS policy and procedures to ensure that faculty overload salaries charged to federal grants are reported on an integrated basis as required by OMB standards. This occurred because sufficient manual procedures have not been established to remediate compatibility issues between its new web-based ERS and the University's payroll, accounting, and human resource management system. Because its ERS policy and procedures did not establish (i) clear requirements for submitting Overload PAFs prospectively and (ii) clear cut-off dates for each Faculty Overload effort reporting period, late PAFs submitted after the close of a reporting period resulted in a manual process to issue retroactive effort reports. Further, current Reno procedures did not properly require, when such retroactive effort reports were issued, that the prior web-based ERS reports be withdrawn and all compensated work activities for the faculty members for the entire reporting period be captured and reflected on the retroactive effort reports.

Specifically, because ERS procedures only required Overload PAFs to be submitted in a "timely manner" without specific due dates, our discussions with PIs and other cognizant grants management personnel found varying interpretations of when the PAFs were required to be submitted. Some officials stated that the Overload PAFs were required to be submitted prospectively for all PI salaries charged to federal projects, while others stated that PAFs should be submitted after the work was completed. Further, additional confusion was created because the dates delineated in the various ERS policies and forms used for capturing and reporting faculty overload compensation were not consistent. For example, even though the OSP Effort Reporting Specialist utilized the end of April as the ERS cut-off date for publishing the Winter/Spring Faculty Overload Reports, the University's written policies state that May is the cut-off date.⁵ This inconsistency allowed Faculty Overload PAFs to be submitted the month after the ERS reports were published.

Furthermore, the manual processes required to mitigate the ERS compatibility issues with the University's existing grants management systems, which provide source information for effort reporting, were not only costly due to the intensive work effort required, but also subject to human error associated with accurately completing such manual tasks. In addition to the issuance of retroactive effort reports, other manual procedures included (i) posting of faculty overload salary charges for federal grants to the Overload PAF Access Database and (ii) preparing and processing documentation to ensure that all cost transfers made during the web-based ERS certification process are properly posted to the grants accounting system. Officials agreed that the manual ERS procedures are not efficient and stated that the University has recognized that a new comprehensive grants management system is needed and will be pursued as funding becomes available.

NSF's Two-ninths Rule. Reno has not established a policy that explains and implements NSF's two-ninths limitation on faculty salary for periods outside the academic year. In fact, interviews with cognizant grants management officials disclosed that the University appeared to be unaware of this NSF requirement. In addition, confusion could have been created by the fact that Reno policy allowed PIs to receive additional overload compensation up to fifty percent of

⁵ Paragraph VII(s)(ii), *Deadlines to File Overload PAFs*, of Reno's Effort Reporting Policy states that "B-Faculty working during their non-contract days in December, January, and Spring Break must have a PAF for this period through the financial system by HR's May cut off date to ensure that a payroll transaction is processed for the May payroll."

their annual base salary for work performed during non-contract days over the winter, spring, and summer breaks. Thus, PIs and grants management personnel at the Departments and OSP could have easily overlooked any sponsoring agency requirements based on the University's own unique faculty salary limitation rule.

Cost Transfer Documentation Requirements. While we found that both the OSP Effort Reporting Specialist and its Post-Award Group reviewed labor cost transfers; neither office was tasked with the responsibility for reviewing the adequacy of the justifications. Furthermore, current Reno cost transfer policies do not properly require additional senior management review and approval for cost transfers made during the last 45 days of a sponsored project. Reno policies recognize that such transfers are highly suspect; however, established procedures do not require that such cost transfers be reviewed and approved by both the applicable Academic Chair and Dean. Such lack of controls resulted in the improper charging for one-half of the total cost transfers we reviewed for the 30 sampled employees during the last month of the NSF grants without detailed explanation as required by Reno policy.

Tuition Remission Costs. Reno has not established sufficient procedures to ensure that graduate student tuition remission costs are proportionately charged to research projects directly benefiting from their actual work activities. Although the charging of such tuition costs has been recently centralized in the Office of Graduate Studies due to identified past weaknesses, there is not an established Reno policy or procedure requiring the proportionate re-allocation of tuition costs and associated fees if there are subsequent changes to a student's work activities. According to the Office of Graduate Studies, the total semester tuition costs and fees are charged to the designated sponsored project at the beginning of each academic semester based on the information provided on the graduate student's PAF. If a subsequent PAF is later submitted to revise the student's salary allocation to other sponsored projects, a change in the tuition and fees previously charged to other project accounts are only made if specifically requested by the academic departments.

Employee Training for Key Official Not Mandatory. Although the University's Effort Reporting Policy stipulated that "administrative units should ensure that employees receive the appropriate training for their specific role in the Effort Report System,"⁶ employee participation in ERS training remained voluntary. For example, 21 of the 30 sampled employees interviewed stated they did not recall receiving effort report training. Furthermore, none of the 58 scheduled ERS training sessions offered during campus implementation of the new web-based ERS were directed at graduate research assistants, even though established Reno policy assigns primary responsibility for certifying effort reports to the employees themselves. In particular, interviews with graduate students disclosed a lack of understanding of the effort reporting process in a number of instances; yet the individuals certified their effort reports anyway. For example, one graduate student who certified her own effort reports stated that she was not aware of the specific names of the six sponsored research projects from which her salary had been charged or the names of the responsible PIs. Nevertheless, she certified her effort reports, which included \$3,375 charged to two NSF grants.

⁶ From paragraph II, *Policy Statement*, of Reno's Effort Reporting Policy.

In addition, there was no policy requiring administrative units to ensure employees received appropriate effort reporting training. Such responsibility should likely be assigned to a senior level management official such as the Dean or the Chair of each Academic Department. Senior officials typically have the leverage needed to ensure such training is taken by all responsible personnel.

Independent Internal Evaluations. Reno has not established adequate policy and procedures for a periodic and systematic review of its effort reporting system as mandated by OMB Circular A-21. As such, the University had never conducted a comprehensive evaluation of the University's effort reporting process to ensure full compliance with federal requirements and an effective and efficient system.

The Campus Internal Audit Department did perform a review of the ERS and issued a report on December 24, 2008. However, responsible officials stated that the review was primarily directed at evaluating if the new web-based ERS was operating as intended and the purpose of the review was not intended to be a comprehensive evaluation fulfilling the OMB-required review of the system's effectiveness and compliance with federal requirements. Reno audit officials stated that using the results of prior NSF OIG labor effort audit reports, the ERS review was only designed to evaluate if the University had any of the common control weaknesses which had been reported at other universities. Accordingly, the review report recommended that (i) a more detailed description be developed for suitable means of verification, (ii) ERS training be made mandatory for all cognizant Reno personnel, (iii) detailed ERS operating procedures be established for the OSP labor effort specialists, and (iv) a formal Reno framework be established for the OMB-mandated evaluation of the system on a periodic basis. OSP officials stated that they generally agreed with the Internal Audit recommendations, but were awaiting the results of our audit to develop and implement corrective action to address all effort reporting recommendations on a comprehensive basis.

Reno is certainly to be commended for performing a review of its new ERS soon after implementation and making appropriate recommendations for improvement. However, because the Campus Internal Audit Department was informally established within the Office of Business and Finance, it does not have a mission statement, a charter, or by-laws to guide its operations or establish its authority within the University's organizational structure. As such, the Department does not have a formal audit tracking and follow-up system to ensure effective corrective action plans are developed to implement report recommendations. The lack of formal University backing for the Internal Audit Department's function undermines the important oversight and monitoring role that the Department plays in the University's system of internal controls to ensure compliance with both federal and Reno grant requirements. This is particularly important given that Reno had FY 2008 federal grant expenditures totaling almost \$85 million.

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:

- 1.1 Work with Reno officials to establish an internal control structure that provides for a payroll distribution system that reasonably reflects the actual effort employees devote on sponsored projects. At a minimum, Reno should take the following corrective actions:
- a. Revise its ERS policy and procedures to ensure (1) the manual process for issuing Retroactive Effort Reports provide integrated reporting of all employee sponsored and other work activities; (2) clear timeliness standards for submission of Faculty Overload PAFs; and (3) consistent ERS data capture and reporting dates.

University of Nevada Reno Comments

The University has revised procedures to ensure all overload salaries paid are integrated into retroactive effort reports for a given term and plans to revise its policy to properly reflect the April deadline for the ERS data capture date for the Winter/Spring Overload term. The Office of Sponsored Projects is working with Department of Human Resources to evaluate policy changes to establish submission deadlines for Faculty Overload PAFs.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- b. Continue efforts, as funding becomes available, to undertake planned efforts to update the University's grants management systems to effectively and efficiently address the current compatibility issues between the new ERS and existing systems.

University of Nevada Reno Comments

The University is exploring the implementation of a grants management system.

Auditor Comments

Reno's actions should address our audit recommendation if a new grants management system is identified and implemented that is compatible with ERS. If Reno does not implement a new grants management system, then it must still resolve the compatibility issue between ERS and its current grant management system.

- c. Establish policy on NSF's two-ninths rule which limits all faculty salary from all NSF-funded grants. Such policy should include clear assignment of responsibility for monitoring University compliance.

University of Nevada Reno Comments

The University is establishing policy and procedures to facilitate compliance with NSF's 2-months rule on faculty compensation.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- d. Improve OSP monitoring and oversight of labor cost transfers to ensure compliance with University cost transfer policies and procedures by (1) assigning clear OSP responsibility for ensuring that justifications for labor cost transfers are adequate and rejecting transfers not meeting all Reno cost transfer criteria and (2) requiring increased management review and approval for labor cost transfers occurring within the last 45 days of a federal grant by the Chair and Dean.

University of Nevada Reno Comments

The University is currently modifying the cost transfer policy and cost transfer explanation form to require that untimely transfers must be approved by the Chair and Dean. Also, the revised policy will include examples of acceptable justifications and add OSP responsibility for evaluating cost transfers.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- e. Establish policy and procedures to ensure that graduate tuition costs and fees charged to federal sponsored grants are consistent with the associated level of effort actually devoted to the projects.

University of Nevada Reno Comments

The University is establishing policy and procedures to ensure that graduate tuition costs and fees charged to federal sponsored grants are consistent with the associated level of effort devoted to the projects.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- f. Establish policy for an independent evaluation of the effort reporting system required periodically to ensure its effectiveness and full compliance with federal, NSF, and University standards. Such a requirement should identify the specific organization responsible for performing the evaluation and how often such an evaluation should be conducted.

University of Nevada Reno Comments

The University Campus Audit Department has committed to conduct an independent evaluation (audit) to assess the effectiveness and compliance of the Effort Reporting System to ensure compliance with all federal, NSF, and Reno standards on a three-year cycle.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- 1.2 Work with Reno officials to (a) ensure a formal mandatory grants management training program is established that requires all campus personnel with effort reporting responsibilities to be periodically trained and (b) assign specific responsibility to a senior management official, such as the department chair or college dean, to ensure that personnel receive the appropriate training as required by University policy. Such a grants management training program should include discussion of effort reporting, cost transfers, proper charging of graduate tuition costs and fees, and unallowable federal grant costs.

University of Nevada Reno Comments

The University is establishing a policy regarding a formal research compliance training program.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation if it includes both a required training component for persons with effort reporting responsibilities and assigns oversight responsibilities to senior management officials.

- 1.3 Resolve the \$54,154 in total questioned costs for improper salary charges and tuition costs to NSF grants, consisting of \$37,260 in direct costs and \$16,894 in associated fringe and indirect costs.

University of Nevada Reno Comments

The University will work with the NSF to resolve the \$54,741 in questioned costs. However, Reno believes that additional discussion is warranted regarding the interpretation of the two-ninths faculty salary policy as it relates to the two individuals cited in the audit.

Auditor Comments

Reno's actions should address our audit recommendation once the questioned costs have been reimbursed to NSF or NSF determines the costs to be allowable.

Finding 2 - ERS Accountability Required for Uncompensated Faculty Labor Effort

An OMB Clarification Memorandum⁷ provides guidance for reporting cost sharing commitments for faculty and/or senior researcher effort on sponsored projects. Committed cost sharing (including voluntary committed cost sharing) is effort not required by the federal sponsor, but proposed in the sponsored project narrative and/or budget with no corresponding funding requested or awarded. Cost sharing commitments can also be created by replacing funded researcher effort with cost shared effort. For example, committed cost sharing would result where a faculty member or senior researcher's salary is funded at 20 percent in the proposal budget and subsequently only 5 percent salary is charged to the project. The "uncharged effort" of 15 percent would represent "committed cost sharing" and must be accounted for and reported in the grantee's labor effort reporting system. If the University does not document that such committed PI effort was actually provided, then federal regulations require the institution to obtain prior sponsoring agency approval when there is more than a 25 percent reduction in PI time devoted to a grant.⁸ In addition, when sponsored projects do not include any paid faculty or senior researcher labor effort, the OMB Clarification Memorandum requires an estimated amount to be computed and included in the university's organized research base⁹ used for computing its federal indirect cost rate.

Consistent with the OMB Clarification Memorandum, our review of eight faculty members included in our 30 sampled employees determined that Reno did not appropriately report committed cost sharing when NSF-funded PI effort on grants was replaced with cost shared effort. Specifically, one of the eight faculty members reviewed charged \$20,360 less salary to NSF grants than included in the award budget proposals and approved by NSF (see Appendix B). Such "uncharged PI labor effort" represented voluntary committed cost sharing and must be properly accounted for in Reno's labor effort reporting system. The unreported amount of such committed cost sharing represented about 16 percent of the total FY 2008 salaries of \$126,263 charged by the eight faculty members to NSF grants.

The following example illustrates where Reno did not properly report committed cost sharing of PI effort on NSF grants as required by the OMB Clarification Memorandum:

- A PI had four active sponsored projects during FY 2008, two of which were new NSF grants awarded in the fall 2007. In the proposal budget for each of these two grants, the PI had committed to work two academic year (AY) months and one-half summer

⁷ OMB Memorandum M-01-06, dated January 5, 2001, *Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission.*

⁸ Paragraph .25(c)(3) of OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires prior Federal agency approval for "The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator."

⁹ The organized research base is used as the denominator for computing the federal indirect cost rate applied to all sponsored projects. As such, a smaller organized research base will result in a higher indirect cost rate, thereby allowing the institution to recoup a greater portion of its indirect costs on federal grants.

month during the first year. However, Reno denied the PI's request for release time to work on the NSF grants during the academic year. Further, because the PI's overload salary for non-contract days was already being funded from other sponsors, the individual charged \$20,360 less to the two NSF grants for the first year than the committed effort in the grant proposals. During the interview, the PI acknowledged that he had worked on both NSF grants during the academic year. Therefore, the "uncharged PI effort" of \$20,360 should have been reported as voluntary committed cost sharing on the faculty member's AY semester effort report.

Without accurate reporting of committed cost sharing of PI effort, Reno is unable to validate to NSF that the PI provided the level of effort explicitly committed in the four grant proposals to accomplish project objectives. NSF expected these faculty members to provide the amount of effort that the individuals have agreed to contribute in their original grant proposals. It is important for the federal government to be able to validate that a sufficient level of PI effort was committed to a sponsored project that is commensurate with the complexity and nature of the research and dollar amount of grant funding. As such, accurate labor effort reports are essential to document both direct federally-funded and voluntary committed effort devoted to sponsored projects by faculty members.

Furthermore, contrary to the OMB Clarification Memorandum, Reno did not have an established methodology for imputing an amount for donated PI effort to sponsored projects to include in the organized research base when sponsored projects do not include any paid faculty or senior researcher salaries. According to OSP officials, the indirect cost rate proposal, submitted to the Department of Health and Human Services¹⁰ in 2009, did not include an imputed amount for such donated PI effort.

Inaccurate reporting of committed cost sharing of PI effort may result in NSF and other federal sponsoring agencies potentially assuming a disproportionate share of Reno's indirect costs. Specifically, when such amounts are not accurately quantified and included in the organized research base, the indirect cost rate charged to federal grants would be higher because the rate is computed by dividing the University's total indirect costs by the organized research base. The improper exclusion of such costs from the base results in a higher negotiated indirect cost rate, thereby resulting in greater indirect costs paid by the federal government.

These weaknesses occurred because Reno's policy for cost sharing on sponsored projects did not provide guidance on how to address situations when federally funded PI effort on sponsored grants was replaced with cost shared effort. Specifically, it did not establish procedures addressing how PI effort should be documented in its labor effort reporting system when faculty members originally committed a certain amount of effort in their grant proposal submission, but subsequently decided only to charge partial or no salary directly to the sponsored projects. However, NSF and other sponsoring agencies have an expectation that the PIs will fulfill such effort commitments necessary to accomplish the projects' research objectives. If the University cannot document that such committed PI effort was actually provided, then federal

¹⁰ The Department of Health and Human Services (DHHS) is Reno's cognizant federal audit agency and responsible for negotiating the federal indirect cost rate plan for the University.

regulations require Reno to obtain sponsoring agency approval in advance when there is more than a 25 percent reduction in PI time devoted to the grant.

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 ensure that Reno establishes formal policy and institutional processes to provide for:

- 2.1 Tracking and reporting of cost sharing commitments created by replacing funded PI effort on sponsored projects with cost shared effort.

University of Nevada Reno Comments

The University is establishing a policy that will require that all quantifiable committed effort is either direct charged to the sponsor or is considered cost share.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

- 2.2 Estimating the amount of faculty effort to include in the organized research base for federally-sponsored projects without some level of committed faculty effort. Ensure the methodology for calculating the estimated amount is supported by adequate documentation.

University of Nevada Reno Comments

The University will work to determine an applicable amount for unquantifiable faculty or senior researcher effort to be included in the organized research rate in its next indirect cost rate proposal. Reno plans to research methodologies used at peer institutions to determine an appropriate calculation method.

Auditor Comments

Once implemented, Reno's actions should address our audit recommendation.

3. Other Audit Matters:

Certification of Effort Report Are Timely

Although federal regulations do not specify when labor effort reports should be reviewed and certified, Reno has established timeframes for review and approval to ensure a timely certification process. From the time the web-based effort reports are available for pre-review, University employees have 30 days to complete the online certification. Of the 77 effort reports reviewed for the 30 sampled employees, 88 percent were certified in a timely manner. Of the nine late ERS certifications, one-third were only one day late and all but two were late by 10 days or less. The rate of Reno compliance with its timeliness standards is commendable and it should remain a University goal to achieve full compliance. We credit the overall timeliness of effort certification to Reno's strong follow-up policies and procedures. Specifically, a faculty member is placed on an OSP suspension list if effort reports on sponsored research projects are delinquent. This occurs after the issuance of two reminder notices to follow-up on the late effort reports using an increasingly graduated scale to higher level management officials. The faculty members on the OSP suspension list are ineligible for all OSP services including proposal preparation, account set-up, and budget revisions. After the third and final delinquent notice, OSP will request the PI's Dean or Director to provide an account to which the uncertified payroll charges on the sponsored accounts can be moved. Such stringent Reno processes result in timely certification of labor effort reports.

Management of Reno Conflict of Interest Process Could Be Improved

University Policy on Conflicts of Interest places responsibility on each employee to disclose individual conflicts of interest. Accordingly, all Faculty and Key Personnel are required to file an *Annual Summary of Outside Activities and Financial Interest Form* to report any significant financial interest¹¹ that may pose a potential conflict of interest. However, the audit noted that Reno's internal control processes were not always sufficient to ensure risks were minimized in achieving the University's goals and objectives for full accountability and mitigation of potential employee conflicts of interest. Specifically, the audit identified a PI who held an ownership interest in a private enterprise that was not properly reviewed by Reno's Conflict of Interest Committee. As such, any potential conflicts of interest that may have existed were not properly managed and monitored as required by the University's own policy and procedures.

¹¹ Reno policy defines significant financial interest as employee ownership "of 5 percent or more of the capital stock, assets, or control of any business entity. . ."

Schedule of FY 2008 Questioned Salaries and Wages

| Faculty Salary Charges Exceed NSF's Two-Ninth Rule | | | | | |
|--|---|-----------------|----------------------|-----------------|-----------------|
| Sample ID | NSF Grant Number | Salary Costs | Fringe Benefit Costs | Indirect Costs | Total Costs |
| 8 | See Note ¹² | \$8,367 | \$264 | \$3,452 | \$12,083 |
| 23 | See Note ¹³ | \$19,425 | \$612 | \$8,015 | \$28,052 |
| | Subtotal | \$27,792 | \$875 | \$11,467 | \$40,134 |
| Employee Cost Transfers Inadequately Justified | | | | | |
| Sample ID | NSF Grant Number | Salary Costs | Fringe Benefit Costs | Indirect Costs | Total Costs |
| 19 | | \$2,025 | \$277 | \$921 | \$3,223 |
| 19 | | \$1,350 | \$183 | \$613 | \$2,146 |
| 25 | | \$875 | \$154 | \$412 | \$1,441 |
| | Subtotal | \$4,250 | \$615 | \$1,946 | \$6,810 |
| Employee Effort Does Not Directly Benefit Research Project | | | | | |
| Sample ID | NSF Grant Number | Salary Costs | Fringe Benefit Costs | Indirect Costs | Total Costs |
| 24 | | \$3,750 | \$351 | \$1,640 | \$5,741 |
| | Subtotal - Questioned Salary Costs | \$35,792 | \$1,841 | \$15,053 | \$52,686 |
| Graduate Student Tuition Remission Costs Improperly Allocated | | | | | |
| Sample ID | NSF Grant Number | Tuition Costs | Fringe Benefit Costs | Indirect Costs | Total Costs |
| 1 | | \$1,016 | | | \$1,016 |
| 10 | | \$452 | | | \$ 452 |
| | Subtotal | \$1,468 | | | \$1,468 |
| | TOTAL QUESTIONED COSTS | \$37,260 | \$1,841 | \$15,053 | \$54,154 |

¹² NSF grant numbers 0721542 and 0721600, and NSF pass-through grant 0627039/A11754

¹³ NSF grant number 0721399, and 2 NSF pass-through grants 9701471 and P074-06-803

Appendix B

Schedule of FY 2008 Faculty Uncompensated Effort Not Properly Reported

| Sample Number | NSF Award Number | Award Period | PI Effort Commitment per NSF Grant Proposal Budget | NSF Wages Charged | Uncharged PI Effort |
|----------------------|-------------------------|---------------------|---|--------------------------|----------------------------|
| | | | | | |
| 8 | | 09/01/07-08/31/08 | \$23,611.00 | \$11,548.90 | \$12,062.10 |
| 8 | | 10/01/07-09/30/08 | \$23,611.00 | \$15,312.68 | \$8,298.32 |
| | | | | | |
| | | TOTAL | \$47,222.00 | \$26,861.58 | \$20,360.42 |
| | | | | | |

University of Nevada Reno's Response to Draft Audit Report



University of Nevada, Reno



December 18, 2009

Mr. Cordell Olive
Senior Manager
1250 H Street, NW, Suite 1150
Washington, DC 20005

Dear Mr. Olive,

Thank you for the opportunity to comment on the audit reports or the NSF OIG effort audit at the University of Nevada, Reno. We are responding to the document dated December 2, 2009.

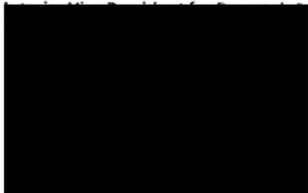
This audit has been a positive experience for our campus and we intend to use the recommendations to improve our educational and oversight responsibilities in grant management. Both your staff and the representatives from NSF OIG have been helpful and professional throughout this audit.

Below please find our response to the audit recommendations.

Recommendations

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

1. Work with Reno officials to establish an internal control structure that provides for a payroll distribution system that reasonably reflects the actual effort employees devote on sponsored projects. At a minimum, Reno should take the following corrective actions:
 - a. Revise its ERS policy and procedures to ensure (1) the manual process for issuing Retroactive Effort Reports provide integrated reporting of all employee sponsored and other work activities; (2) clear timeliness standards for submission of Faculty Overload PAFs; and (3) consistent ERS data capture and reporting dates.



University of Nevada Reno's Response to Draft Audit Report

University of Nevada Reno Response:

The University is revising the policy to reflect the April deadline for the ERS data capture dates for the Winter/Spring Overload term. The Office of Sponsored Projects is working with Department of Human Resources to evaluate policy changes to establish submission deadlines for Faculty Overload PAFs. The University has revised its procedures to ensure that retroactive effort reports are integrated to show all overload salary paid in a given effort reporting term.

- b. Continue efforts, as funding becomes available, to undertake planned efforts to update the University's grants management systems to effectively and efficiently address the current compatibility issues between the new ERS and existing systems.

University of Nevada Reno Response:

The University is exploring the implementation of a grants management system.

- c. Establish policy on NSF's two-ninths rule which limits all faculty salary from all NSF-funded grants. Such policy should include clear assignment of responsibility for monitoring University compliance.

University of Nevada Reno Response:

The University is establishing policy and procedures to facilitate compliance with NSF's 2 months rule on faculty compensation.

- d. Improve OSP monitoring and oversight of labor cost transfers to ensure compliance with University cost transfer policies and procedures by (1) assigning clear OSP responsibility for ensuring that justifications for labor cost transfers are adequate and rejecting transfers not meeting all Reno cost transfer criteria and (2) requiring increased management review and approval for labor cost transfers occurring within the last 45 days of a federal grant by the chair and dean.

University of Nevada Reno Response:

The University is currently modifying the cost transfer policy and cost transfer explanation form to require that untimely transfers must be approved by the chair and dean. Examples of acceptable justifications and OSP responsibility for evaluating cost transfers will be added to the cost transfer policy.

- e. Establish policy and procedures to ensure that graduate tuition costs and fees charged to federal sponsored grants are consistent with the associated level of effort devoted to the projects.

University of Nevada Reno Response:

University of Nevada Reno's Response to Draft Audit Report

The University is establishing policy and procedures to ensure that graduate tuition costs and fees charged to federal sponsored grants are consistent with the associated level of effort devoted to the projects.

- f. Establish policy for an independent evaluation of the effort reporting system required periodically to ensure its effectiveness and full compliance with federal, NSF, and University standards. Such a requirement should identify the specific organization responsible for performing the evaluation and how often such an evaluation should be conducted.

University of Nevada Reno Response:

The university Campus Audit Department has committed to conduct an independent evaluation (audit) to assess the effectiveness and compliance of the Effort Reporting System consistent with all federal, NSF, and university standards. This audit will be conducted on a three year cycle.

2. Work with Reno officials to (a) ensure a formal mandatory grants management training program is established that requires all campus personnel with effort reporting responsibilities to be periodically trained and (b) assign specific responsibility to a senior management official, such as the department chair or college dean, to ensure that personnel receive the appropriate training as required by University policy. Such a grants management training program should include discussion of effort reporting, cost transfers, proper charging of graduate tuition costs and fees, and unallowable federal grant costs.

University of Nevada Reno Response:

The University is establishing a policy regarding a formal research compliance training program.

3. Resolve the \$54,741 in total questioned costs for improper salary charges and tuition costs to NSF grants, consisting of \$37,260 in direct costs and \$17,481 in associated fringe and indirect costs.

University of Nevada Reno Response:

The University will work with the NSF Division of Grants and Agreements to resolve the \$54,741 in questioned costs. However, we believe that additional discussion is warranted regarding the interpretation of 2/9ths policy as it relates to the two individuals cited in the audit.

Proposal Guidance

The guidance regarding proposed budgets to NSF during the audit period is stated as follows in the Grants Proposal Guide 081 (effective January 5, 2008):

University of Nevada Reno's Response to Draft Audit Report

Summer salary for faculty members at colleges and universities on academic-year appointments is limited to no more than two-ninths of their regular academic-year salary. This limit includes summer salary received from all NSF-funded grants.

In the case of the employee with sample ID 23, he exceeded the requirement when considering his proposed summer salary on all NSF grants. This is due in part to a no-cost-extension on one project that was originally supposed to end before the start of the third project. The proposed summer salary on the individual proposals is compliant with the requirement.

In the case of the employee with sample ID 8, he exceeded the limit by half a month with regards to his proposed effort on all NSF grants. However each individual proposal was compliant with stated regulations. Employee 8, believed that NSF was aware of the totality of support because all three awards came from the NSF Division Computer and Network Systems.

The revised guidance in the current GPG 0929, effective April 2009 is much clearer about the University's obligation to identify in the budget justification that if the proposal is awarded in conjunction with other NSF support the Investigator's total support will exceed the 2 month limit. However, during the audit period, it was unclear what steps the University needed to take to appropriately address the limit for each Investigator for all of their respective NSF funded grants.

Award Management Guidance

The award management guidance that was applicable during the audit period was in the Award and Administration Guide 08-1, effective January 2008.

There are two pertinent sections that the University used to guide our handling the awards where employees 8 and 23 where serving as Principal Investigators.

Change in Person-Months Devoted to the Project: If the PI/PD or co-PI/co-PD will devote substantially less time to the project than anticipated in the proposal, (defined in the NSF Grant Conditions (GC-1) as a reduction of 25% or more in time) he/she should consult with appropriate officials of the grantee organization and with the NSF Program Officer."

Prior Approval: NSF has waived most cost related and administrative prior approvals required by OMB Circular A-21 and 2 CFR §215. Grantees should refer to the general conditions referenced in the grant, and AAG Exhibit II-1 for information on NSF required prior approvals.

The questioned costs identified in the 2/9ths finding ultimately resulted from an increase in effort by employees 8 and 23 on their respective awards. The compensation paid to employees 8 and 23 were consistent with the certified level

University of Nevada Reno's Response to Draft Audit Report

of effort. There was not a requirement for the University to obtain prior approval for this increase in effort. Furthermore, it is still our understanding that the University may charge additional time and compensation to an NSF grant, beyond the normal two month threshold for senior personnel, through our normal rebudgeting authority. We affirm that the charges must meet OMB Circular A-21 criteria for being reasonable, allocable and necessary, and that the additional time must not change the scope of the project.

4. Tracking and reporting of cost sharing commitments created by replacing funded PI effort on sponsored projects with cost shared effort.

University of Nevada Reno Response:

The University is establishing a policy that will require that all quantifiable committed effort is either direct charged to the sponsor or is considered cost share.

5. Estimating the amount of faculty effort to include in the organized research base for federally-sponsored projects without some level of committed faculty effort. Ensure the methodology for calculating the estimated amount is supported by adequate documentation.

University of Nevada Reno Response:

The University will work to determine an applicable amount for unquantifiable effort to be included in the organized research rate for our next facilities and administrative rate proposal. The University will conduct diligent research on methodologies used at peer institutions to determine a calculation method.

If you have any questions about our response, we would be happy to provide clarification. Thank you for your consideration.

Sincerely,

[Redacted Signature]