

Audit of Payroll Distribution and Effort Reporting System

The Research Foundation of the State University of New York

Stony Brook University Operating Location

Stony Brook, Long Island, New York

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EXECUTIVE SUMMARY

This audit report provides the results of our audit of the payroll distribution and labor effort reporting system used at the State University of New York (SUNY) at Stony Brook (Stony Brook). The Research Foundation - SUNY (Foundation) helps to acquire and manage grants for all SUNY campuses. Federal grants management and oversight, including validating salaries and wages charged to National Science Foundation (NSF) grants, is the responsibility of the Foundation. The Foundation maintains a Central Office within the SUNY system and works in conjunction with and provides staffing to 30 campus locations, of which Stony Brook is one.

In fiscal year 2008, Stony Brook charges to federally sponsored projects totaled approximately \$148.6 million, of which \$23.2 million, or about 16 percent, were charges to NSF. Of this amount, more than \$8.1 million were 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 in order to assess the adequacy of internal controls to ensure salaries and wages claimed on NSF grants are properly managed, accounted for and monitored.

Review of 30 sampled employees determined that the Stony Brook payroll distribution system substantially supports payroll costs charged to NSF awards. The employee effort reports were generally consistent with the fiscal year 2008 salary costs of \$703,260 directly charged to NSF grants. The audit also revealed that the Foundation has updated policies, improved procedures, and strengthened internal controls in the areas of labor effort reporting and cost transfers. Notable accomplishments at Stony Brook are the timely certifications of labor effort reports and the identification, tracking, and recording of cost-shared effort committed by principal investigators in grant proposals.

However, opportunities for improvement were also noted. In some instances, we found that effort reports were signed by persons without suitable means of verification or who did not understand the certification criteria, which lessened the reliability of the effort reports to support labor charged to NSF awards. In addition, the Foundation's effort reporting system, in which Stony Brook personnel participate, was not fully integrated to include all academic, administrative, and research effort for both sponsored and all other work activities. We also identified system weaknesses that allowed for labor cost transfers to be made without required justifications and incorrect salary charges that did not directly benefit NSF grants.

Specifically, the effort reports for 14 of 30 sampled employees, representing \$235,737 in NSF salary charges, were not supported by a certification from someone possessing suitable means of verification to validate the reasonableness of actual employee labor effort devoted to federally sponsored projects. Such certifications did not support NSF salary charges and were not in compliance with relevant federal regulations. However, notwithstanding the inadequate certifications, nothing came to our attention that suggested the 14 individuals did not actually expend the labor effort reported, which supported the NSF salary charges. We also noted that effort reports for 6 of 30 sampled employees were incomplete and inaccurate because state-funded employee academic responsibilities, representing \$98,989 of salary costs, were not presented on the effort reports. Further, contrary to the Foundation's own cost transfer policy, for 7 of the 30 sampled employees reviewed, Stony Brook did not include written explanation or

documentation of the justification for changes to previously recorded labor charges. Finally, Stony Brook overcharged NSF grants by \$23,656 in salary and related fringe and indirect costs.

The results of the audit procedures indicate that the Foundation should strengthen the internal controls designed to ensure that effort reports and payroll source documentation reasonably support salaries and wages charged to sponsored projects. Further, the systemic nature of these control weaknesses suggests that support for the remaining \$7.3 million of FY 2008 labor charges to NSF grants and the salary portion of Stony Brook's other federal award expenditures may be similarly insufficient.

The above conditions occurred primarily because the Foundation's policies and procedures did not incorporate first-hand knowledge as a condition of suitable means of verification to support labor charges to federal awards. In addition, we found that (1) policies concerning effort reporting and labor cost transfers were unclear and appear contradictory; (2) the effort reporting system did not include all employee sponsored and other activities on an integrated basis; (3) Stony Brook employees were inadequately trained on their effort reporting responsibilities; and (4) monitoring was insufficient to ensure that all Stony Brook departments complied with established Foundation effort reporting policies and procedures.

To address these deficiencies, we made recommendations to the Foundation to establish clear and complete policies, fully integrate the effort reporting process, establish a training program for all individuals involved in the effort reporting process, and provide more oversight over the effort reporting program.

A draft audit report requesting comments on the findings and recommendations was provided to the Foundation. Generally, the Foundation concurred with the findings and recommendations and stated that it has revised or plans to revise certain policies and procedures to address opportunities for improvement in effort reporting and cost transfer practices. The Foundation will work with its internal audit office and the external independent auditor to ensure that the scope of work performed for the annual OMB Circular A-133 audit encompasses those areas required for the federally-mandated independent evaluation of the effort reporting system.

However, the Foundation disagrees that, to be compliant with OMB Circular A-21, its procedures must be revised to ensure that all employee effort reports include all academic, administrative, and research activities, including state-funded activities. The Foundation bases its position on the fact that the Foundation is a separate legal entity from SUNY. We believe our finding is valid and that the legal distinction between the two entities does not negate the Foundation's responsibility for reporting of all compensated employee work activities on an integrated basis as required by Circular A-21. This is particularly true given that the Foundation already has an existing procedure for including state-funded activities on effort reports for faculty and other Stony Brook staff with sponsored research duties. Therefore, it needs to consistently apply these same effort reporting procedures to all employees working on federal sponsored projects.

During the audit resolution process, NSF needs to work with the cognizant agency for audit and the Foundation to clarify the issue of whether state-funded academic work activities for all employees are required to be included on effort reports along with the work performed on

sponsored research projects. In addition, the Foundation and Stony Brook need to take steps to establish formal monitoring procedures to ensure its new effort reporting training is actually being taken by all PIs and other cognizant university staff and that such training has been effective in achieving university compliance with federal and Foundation requirements. For the remaining audit recommendations, the Foundation's proposed corrective actions, when implemented, are appropriate. We have summarized the Foundation's response and provided our comments after each recommendation in the report. The response to the draft report in its entirety is included as Appendix B.

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ACRONYMS

Foundation	State University of New York Research Foundation
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	U. S. Office of Management and Budget
OSP	Office of Sponsored Projects (the Foundation Central Office)
OVPR	Stony Brook Office of the Vice President for Research
PI	Principal Investigator
SUNY	State University of New York

INTRODUCTION

Background

Approximately one-third of the National Science Foundation (NSF) award funds are provided to universities for salary and wages, amounting to about \$1.3 billion annually. Also, in recent years, there have been several civil settlements involving overcharges of labor costs to federal grants at several major universities, amounting to millions of dollars, 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 audit, involving the Research Foundation (Foundation) of the State University of New York's operating location at Stony Brook, is one of the planned reviews of such labor effort distribution systems.

The State University of New York at Stony Brook (Stony Brook or University) is a public research campus located in Stony Brook, New York (on the North Shore of Long Island, about 65 miles east of Manhattan, New York). Stony Brook is the second highest ranked of the four university centers in the State University of New York (SUNY) system, and has an enrollment of more than 22,000 students. Stony Brook was founded in 1957 as the State University College on Long Island with about 100 students enrolled.

Scientific research is a hallmark at Stony Brook. The University is one of only ten national universities awarded a 1998 National Science Foundation recognition award for integrating research and education. In 2001, it became a member of the Association of American Universities (AAU), an invitation-only organization of the top 62 research universities in the United States. The University generated \$148.6 million in external research funding in fiscal year 2008, of which \$23.2 million was from NSF.

The Foundation is a private non-profit educational corporation which manages sponsored programs throughout the SUNY System. The Foundation has its own self-perpetuating, independent board of directors, employees, programs, policies, and procedures. Pursuant to a service contract, it performs services to and in support of SUNY. In accordance with the service contract, external sponsored grants and contracts for research and training programs are awarded to the Foundation and not directly to Stony Brook. The Foundation provides assistance to Stony Brook and other colleges and universities within the SUNY system to acquire grants and contracts. The Foundation is responsible for a majority of the day-to-day administration of sponsored programs, including financial, human resources, procurement, and reporting activities, in order to allow principal investigators to devote more time to their research and scholarship activities.

The Foundation consists of a corporate headquarters and central office located in Albany, New York, and Foundation operating units at 30 campus locations across New York State. The Foundation is responsible for issuing policy and procedures to ensure compliance with federal grant requirements and to assist the operating locations in their efforts to comply with established policies. The Foundation central office includes individuals responsible for coordinating services in the areas of labor effort reporting, cost transfers, and cost sharing at the campuses. In addition, the Foundation central office

provides the internal audit function for all the Foundation campuses with regard to federal sponsored programs management.

The Foundation assigns an Operations Manager at Stony Brook, appointed by the Foundation Board of Directors, who is responsible for oversight of sponsored programs management at the campus. The Operations Manager works in coordination with the Foundation's grants management staff within the Office of Vice President for Research (OVPR) at Stony Brook. These officials are responsible for most aspects of the day-to-day administration of sponsored programs at Stony Brook. The OVPR functional responsibilities encompass pre-award proposal review and submission and post-award accounting and administration, including overseeing the labor effort reporting process, labor cost transfers, and fulfillment of cost share commitments. Within the OVPR, the Grants Management Office is responsible for the post-award accounting and administration functions.

The Foundation also employs departmental staff to support the SUNY-employed principal investigators and the project directors who conduct the research under the terms of the sponsored award. Since SUNY and the Foundation are separate organizations, labor charges to any given sponsored award may be generated from two separate payroll systems. The SUNY payroll system processes salary for New York State employees; including faculty (e.g. principal investigators), administrative and support staff, and graduate teaching assistants. The Foundation's payroll system processes salary for employees such as full-time research scientists, faculty members acting as project PIs on summer research appointments, post-doctorate scholars, research support specialists, research project assistants, and graduate research assistants.

Objectives, Scope and Methodology

The audit objectives, scope of the procedures, and methodology employed are discussed in this section of the report.

Audit Objectives

The audit objectives were to: (a) evaluate whether Stony Brook's internal controls are adequate to properly manage, account for, monitor, and report salary and wage costs on NSF grants in accordance with OMB and NSF grant requirements and (b) determine if salaries and wages charged to NSF awards are allowable, allocable, and reasonable in accordance with federal cost principles and NSF award terms and conditions.

Scope and Methodology

The audit effort focused on the Foundation's effort reporting system which is comprised mainly of labor effort reports called Certificate of Salary Distribution Reports (ER), which are prepared each fall, spring, and summer semester. A small number of non-exempt employees prepare monthly effort reports. Our audit procedures included the review of 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, the level of PI effort pledged in grant proposals and award

documents was evaluated in relation to the effort actually contributed by the faculty member to accomplish award objectives.

To address each of these 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 is designed to facilitate projecting the 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 Stony Brook population of labor costs charged to NSF grants. Specifically, the FY 2008 salary and wage costs for the 30 sampled employees tested amounted to \$703,260.¹ Our statistical sample was derived from a total population of 657 Stony Brook employees, who charged salaries of \$8.1 million 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 Stony Brook's policies and procedures prescribed by the Foundation and, when applicable, modified by Stony Brook, to federal and NSF requirements for allocating labor costs to federal awards. In addition, we interviewed Stony Brook 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 Stony Brook charged NSF awards met the control objectives:

- Certificate of Salary Distribution Reports documenting 100 percent of each sample 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.
- Payroll expense distribution reports detailing the actual salaries and wages charged to sponsored projects and other activities for each employee during each reporting period.
- NSF award documents to determine whether the grant had any terms and conditions that would affect the allowability of 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 effort reports by interviewing the 30 sampled employees. We inquired whether (a) the labor charges documented were actually incurred on NSF 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. We reviewed the pertinent award documents to determine whether the grants had any terms and conditions that would affect allowable labor charges to the award. We also interviewed selected administrative grants managers within academic departments to determine 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 work performance prior to approving and signing the effort reports.

¹ Salary amounts provided by the Foundation to NSF totaled \$705,227. The amounts presented herein reflect minor differences in certain salary charges resulting from adjustments processed subsequent to the initial submission date.

To confirm that faculty effort pledged in grant proposals was actually contributed to accomplish grant objectives, we reviewed processes for reporting and tracking PI effort and whether the associated salary costs were properly included in the research organized base for computation of the University's indirect cost rate. For each faculty member in our sample, we reviewed award documents for NSF grants that the faculty member worked on during FY 2008 to determine the effort pledged on each project and compared this committed effort to the approximate percentage of actual effort worked on the project. In addition, we determined whether and how Stony Brook 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 Stony Brook payroll labor distribution reports 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 represented on the effort reports. We also reviewed labor transactions to determine whether the Foundation followed federal, NSF, and its own requirements applicable to charging labor costs to NSF projects.

To evaluate whether Stony Brook officials approved and signed effort reports in a timely manner, we compared the date the reporting period ended to the date the effort reports were approved and signed. Timeliness was tested against the Foundation's policy requiring that all effort reports pertaining to a semester be certified and returned within 90 days of the semester end date.

Finally, we reviewed prior audit procedures performed by the Foundation Internal Auditors on federal programs administered by the Foundation, as well as prior audit reports and working papers prepared by the Foundation's external OMB Circular A-133 auditors, to determine whether there were audit findings and recommendations on the labor effort reporting system. Specifically, we interviewed the Foundation's Internal Audit staff and reviewed the working papers, as needed, to gain an understanding of the scope and procedures used in their audits of the Foundation's payroll distribution reporting system and/or the Foundation management of labor costs charged to federal projects. Review of A-133 audit reports and working papers was performed to ascertain the actual audit scope and the procedures used to support any findings of noncompliance or internal control weaknesses relating to payroll distribution or effort reporting.

We were engaged to conduct the subject audit by the NSF OIG. The on-site audit work at the Stony Brook campus was performed during a two-week period in November 2008 and an additional two-week period in January 2009. The remaining audit work was completed through phone interviews, emails, and documentation requests through July 2009. The 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.

FINDINGS AND RECOMMENDATIONS

Finding - Improvement in Internal Controls Needed to Ensure Reliable Effort Reporting

While the Stony Brook payroll distribution system substantially supports payroll costs charged to NSF awards, internal control weaknesses in the effort reporting system reduce the reliability of this process to substantiate the level of effort associated with salary costs. For example, many of the effort reports were signed by persons who did not understand the meaning of the certification they were providing and did not have a suitable means of verifying the labor effort. In addition, not all effort reports were complete because state-funded salaries were not always included as part of an individual's total effort. Finally, department finance managers were able to initiate workload allocation changes without documenting the justification required by cost transfer policies.

Specifically, our test of 30 sampled employees, which involved 114 effort reports, supporting fiscal year 2008 NSF salary charges of \$703,260, disclosed the following exceptions:

- Thirty-one effort reports, representing \$235,737 of salary charges to NSF awards, or 33 percent of total charges to NSF, were signed by persons without suitable means of verification;
- Effort reports for 6 of the 30 sampled subjects were incomplete and inaccurate due to the omission of state-funded activities;
- Labor cost transfers for 7 of 30 sampled employees did not include required documentation for justification of the salary and wage adjustments; and
- Three sampled employees incorrectly charged \$15,517 in salary costs (see Appendix A). The charges represented excessive periods of absence charged to the award (\$878) and administrative salary charges beyond those approved by NSF (\$14,639). Of this amount, the Foundation reimbursed \$878 of the questioned costs to the NSF grant upon being apprised of the error causing the improper award charge.

The internal control weaknesses occurred primarily because the Foundation did not: (i) establish policies and procedures that clearly define suitable means of verification or the support needed for the verification; (ii) develop an effort reporting system that consistently includes all employees' sponsored and other activities on an integrated basis; and, (iii) adequately train responsible personnel on their effort reporting responsibilities. Further, neither the Foundation nor SUNY established an independent evaluation or oversight process to ensure Stony Brook complied with established federal and Foundation reporting policies and procedures.

These control weaknesses and instances of noncompliance with NSF and other federal regulations demonstrate that the Foundation and Stony Brook should improve the processes for preparing and certifying effort reports to ensure they reasonably support salaries and wages charged to sponsor projects.

OMB Requirements for Effort Reporting and Payroll Cost Transfers

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, requires certification of labor effort/activity contributed by employees on federal awards. Paragraph J10.b.(2)(a) states that a payroll distribution system must “...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 ...” Such a system must provide for after-the-fact confirmation of employee activity by a responsible person with “suitable means of verification that the work was performed.” Furthermore, pursuant to Section J.10.b, effort reports should reflect 100 percent of an employee’s activities, including instructional, research, administrative, and other institutional activities. Additionally, paragraph J10.b.(2)(f) states that “The system will provide for independent internal evaluation to ensure the system's effectiveness and compliance with the above standards.”

Consistent with the Circular A-21 requirement for “sound business management practices,” OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organization*,² requires entities receiving federal awards to establish and maintain internal controls that are designed to reasonably ensure compliance with federal laws, regulations, and program requirements. Further, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, defines internal controls as a “process effected by an entity’s management and personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.”

Stony Brook’s Effort Reporting System

Stony Brook utilizes the Foundation’s effort reporting system to provide for after-the-fact certification of the reasonableness of actual employee effort devoted to federally sponsored projects. Effort reports are accomplished via a paper system for approximately 1,100 Stony Brook employees. The Foundation’s effort reporting policy requires the reports to be reviewed and approved within 90 days of the ending date of the fall, spring, and summer sessions. Effort reports are required to be reviewed and “signed by the employee, principal investigator, or other responsible official to confirm that the document represents a reasonable estimate of the work performed by the employee during the period.” The Foundation’s policy further states that the certifier should have “knowledge of the employee’s effort.”

As the recipient of federal awards, the Foundation’s payroll system is the source of salary data used to generate labor effort reports. Some employees working on federal grants become Research Foundation employees and are paid from its payroll system. However, other employees working on

² Section .21 of OMB Circular A-110, 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.”

federal grants, such as Stony Brook faculty members, also have instructional responsibilities during the academic year. During this time, these individuals are state employees and receive their entire salary payments from the Stony Brook payroll system. The Foundation reimburses the University for the amounts paid to state-funded faculty and staff devoting effort to research grants during the academic year. These payments, called Income Fund Reimbursement (IFR) transactions (Salary Offsets) are included in the Research Foundation payroll system for generating labor effort reports.

Effort Reports Were Not Always Certified by Persons With Suitable Means of Verification

In some instances, labor effort reports were certified by officials who did not have a reasonable suitable means of validating the salary charges to NSF grants. For 14 of 30 sampled employees, we identified 33 of 114 effort reports, representing \$235,737 of salaries reviewed, that were certified by Department Finance Managers or Administrators without adequate information or knowledge to verify that the work was actually performed. Although employees who conduct the work being reported and project principal investigators (PI) are the most knowledgeable for verifying work effort on sponsored projects, federal grant regulations allow administrative personnel who have no first-hand knowledge of the work performed to certify effort reports provided they have a suitable means to validate the effort. However, of the 13 administrative officials that reviewed and signed the labor effort reports tested, interviews disclosed:

- Eight certifiers did not exercise due diligence. Many of the certifiers stated that they performed a detailed comparison of the effort report data to the payroll records, while some performed a cursory review to see if “anything looked wrong.” Neither of these procedures provides evidence that the reported effort reasonably reflected actual employee work activity on the subject NSF grants. For example, an [REDACTED] lacking first-hand knowledge of specific effort devoted to federally-sponsored projects, signed effort reports for an entire department (which involved summer 2008 effort reports for eight employees in our sample) in an attempt to ensure the timely certification and return of the reports.

In another case, a departmental administrative staff member used a transparency to mass produce [REDACTED] signature in certifying effort reports for all employees within the department without evaluating actual employee effort devoted to the sponsored projects (involving effort reports for four employees in our sample);

- Two certifiers were not available for interview, however, their certifications were accepted as valid; and,
- Three certifiers did perform additional procedures providing them the suitable means of verification required for effort report certification. These individuals either provided the PI a copy of the effort report for review or consulted with the PI regarding effort report content prior to signing the reports and appropriately developed and maintained documentation of such additional verification procedures.

Interviews with the 30 sampled staff, faculty, and graduate students revealed a widespread misunderstanding of the purpose of effort reporting, with the prevailing view being that effort report

certification merely reflected validation that the effort report percentages agreed with the payroll records.

In addition, evaluating the percentages of effort presented on the effort reports is unusually difficult and certifiers were generally not aware of how to evaluate the percentages presented. Three factors which complicated the evaluation of effort reporting data for the time period reviewed were:

1. Effort reports for each semester were for a different period of time (3, 4 or 5 months). Accordingly, unlike established quarterly, semi-annual, or annual reporting periods, the percentages of effort represent different amounts of time each semester, which may confuse a reviewer.
2. The effort reports present effort for periods of time (days or weeks) within the reporting period that represent effort expended. This granular level of effort reporting unreasonably forces the employee to certify the percent of effort occurring on a specific day or days rather than during a defined period.
3. Effort reports overlapped between semesters. For example, the May 31 effort report included the Spring Semester and a few days of the Summer Session. This overlap no longer exists at Stony Brook due to a change in effort reporting periods occurring subsequent to the audit period.

The complexity of the information presented on the effort reports further highlights the importance of the signer having first-hand knowledge of the activities reported.

Effort Reports Do Not Always Include All Employee Work Activities

Labor effort reports were, in certain circumstances, incomplete and inaccurate because state-funded employee activities were not always included as required by federal regulations. As previously noted, OMB Circular A-21 requires that effort reports “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*. . .” While the Research Foundation has an established salary offset mechanism for reimbursing Stony Brook for amounts paid to state-funded faculty and staff devoting effort to federal research projects during the academic year, such a process was not consistently applied to all classes of employees. As a result, graduate student activities associated with state-funded teaching assistantships were not captured by the Foundation’s effort reporting system.

Of our sample of 30 employees, six employees incorrectly certified effort reports because they omitted activities representing \$98,989 that were paid through the state’s payroll system. The following examples illustrate labor effort reports that were incomplete and inaccurate because state-funded employee activities were not included as required by federal regulations.

- When a full-time research scientist at the Foundation was appointed as an Assistant Professor at Stony Brook in September 2007, his salary was transferred to Stony Brook’s state payroll system for his new academic appointment and removed from the Foundation’s payroll. For the spring semester of 2008, the individual received \$37,222 salary from the state for his academic responsibilities. However, because this academic salary was not included in the Research

Foundation's payroll distribution system used for generating labor effort reports, the faculty member's spring 2008 report inaccurately reflected that 100 percent of his effort was expended on his NSF award, when in fact, only one day of salary had been charged to the grant. Thus, the effort report, which was certified as accurate by the PI, was misstated by more than 99 percent.

- Five of the six employees with incomplete effort reports were graduate students who had devoted effort to both NSF research projects and Stony Brook teaching assistantships. However, their effort reports inaccurately reported 100 percent effort on the NSF grants because the state-funded salary for their teaching responsibilities was not incorporated into the Research Foundation system for effort reporting. For example, during the fall 2007 semester, a graduate student received \$6,311 salary from the state for teaching three SUNY laboratory classes and \$1,153 for his NSF research activities. Even though the student spent a majority of his time teaching during the semester, his effort report incorrectly showed that he had devoted 100 percent effort on the NSF grant. Proper integrated effort reporting for all the student's work activities would have resulted in a more accurate and equitable allocation of the individual's actual time and effort; which was 85 percent to instructional activities and 15 percent to the NSF grant. Such reporting would have provided the PI on the NSF grant more accurate information when certifying the student's effort report because the individual was only required to work on the NSF project a few hours per week out of the standard 20-hour graduate student appointment.

Conversely, the Foundation has taken the position that, because SUNY is a separate employer, graduate student work activities devoted to teaching assistantships is not required to be tracked in the effort reporting system. Therefore, it believes the effort reports, which reflect 100 percent effort on NSF grants, were accurate and compliant with A-21 standards, and that capturing students' teaching assistantships would serve no purpose. However, OMB Circular A-21 specifically states that "In the use of any methods for apportioning salaries, it is recognized that, in an academic setting, teaching, research, service, and administration are often inextricably intermingled." Therefore, the OMB standards clearly recognize the different types of university employee activities and expect all such activities to be captured in the Foundation's payroll distribution system. Without integrated reporting of all compensated effort for employees working on federal grants, the effort reports do not provide the required information to validate the reasonableness of the actual employee effort devoted to sponsored projects in relationship to the individual's total work activities. The Foundation's unique relationship with SUNY does not relieve it from complying with the A-21 requirement.

Labor Cost Transfers Lack Required Written Justifications and Explanations

The Research Foundation's Transfer of Costs policy³, dated June 30, 2008, requires that all cost transfers have documented justification. This policy states, in the Documentation section that:

"Documentation should include a description of why the charge is appropriate for the award to be charged. Documentation to support cost transfers must be maintained pursuant to 45 CFR 74.53 and it must be available for audit or other review. Exceptions to the policy may be warranted under unusual circumstances and the documentation should provide a complete description of the circumstances."

³ While the Transfer of Costs policy was formally issued in June 2008, Foundation management stated that it was written and disseminated in July 1, 2007. Thus, this policy was in effect throughout FY 2008, the period of this audit.

In addition, Salary and Wage Cost Transfers guidance issued by the Foundation lists documentation required to support labor cost transfers and the additional approval authorization required when a cost transfer is not performed timely. The subject guidance requires “A completed *salary and wages cost transfer form* or campus form with the same elements must be completed for all cost transfers.” The *Salary and Wages Cost Transfer Form* contains a specific data field requiring an explanation and justification for the adjustment. Also, Stony Brook has developed its own campus form, entitled *Payroll Distribution Adjustment Form* (revised 5-8-06), which similarly includes a data field for the reason for the cost transfer.

However, our review disclosed that, for 7 (23 percent) of the 30 sampled employees, one or more payroll adjustments, in some cases up to three revisions, occurred without a full explanation and justification for the labor cost transfers. Contributing to the lack of documentation was Stony Brook’s practice of not requiring justification for transfers initiated within 30 days of the original transaction date. Our review of the applicable Foundation cost transfer policies and procedures did not disclose any support for this practice. Furthermore, Stony Brook did not utilize either the Foundation’s prescribed form or its own campus form to initiate and process all the labor cost transfers. Instead, Stony Brook department administrators generally used the *Employee Change Form* to process all the labor cost transfers. Because this multi-purpose form did not include a data field requiring an explanation or justification for the adjustment, typically none was provided. Even in the instances in which Stony Brook used the prescribed forms to process the labor adjustments, full explanations or justifications were not always provided as required by established Foundation cost transfer policy.

The absence of explanation for such changes in payroll transactions creates an environment in which inaccurate or inappropriate transactions may occur and not be detected on a timely basis. This is particularly true given the frequent Stony Brook adjustments to employee payroll. To illustrate, of the eight PIs included in our 30 sampled employees, there were payroll adjustments totaling \$130,538, or 13 percent, of the total salary charges for these PIs.

Unallowable Costs were Incorrectly Charged

The audit disclosed that, in three instances, unallowable or incorrect charges were made to NSF grants. Interviews of 30 sampled employees found that actual FY 2008 labor effort for three employees on NSF grants was less than the amount reported or represented activities not allowed to be charged to federal grants. These unallowed or unapproved charges amounted to \$23,656, consisting of [REDACTED] in salary costs and [REDACTED] in associated fringe and indirect costs.

Specifically, an administrative employee incorrectly charged salary of \$13,882 directly to two NSF grants without providing appropriate justification in the NSF budget proposals for direct charging such salary amounts as required by OMB and NSF regulations⁴ as well as Research Foundation policies. For one grant, the employee’s administrative salary of \$4,496 was not justified in the NSF budget

⁴ Paragraph F.6.b.(2) of OMB Circular A-21 only allow the direct charging of salaries of administrative and clerical staff to sponsored projects when an extensive amount of such administrative support is required and where these costs can be readily and specifically identified to the project with a high degree of accuracy. Therefore, NSF grant policy requires that such direct charging of administrative salaries to awards be clearly described in the budget justification.

proposal and with respect to the second NSF grant, the employee charged \$12,846, or nearly three times the \$3,460 authorized in the proposal budget.

We also noted one instance in which an employee charged a 37-day absence to her NSF sponsored award, which exceeded the 30 days of absence allowable by Stony Brook policy and Disclosure Statement. Upon being informed of this error, the Foundation transferred the related salary, fringe benefit and indirect costs of \$1,804 from the award into the appropriate the Foundation-funded cost pool.

Current Effort Reporting System Needs Improvement

Although Stony Brook has established some effective controls over the effort reporting process, improvements should be made. Specifically, the University lacked (i) suitable means of verification for one-third of sampled NSF salary charges and (ii) complete and accurate effort reports due to the absence of integrated reporting of all compensated employee activities on a consistent basis. The systemic nature of these control weaknesses suggests that support for the remaining \$7.3 million of FY 2008 labor charges to NSF grants and the salary portion of Stony Brook's other federal award expenditures may be similarly insufficient.

Factors Contributing to Effort Reporting Weaknesses

The internal control weaknesses noted above occurred because of (1) unclear policies concerning suitable means of verification, (2) insufficient training regarding effort reporting principles, (3) a non-integrated effort reporting system that did not include all employee sponsored and other work activities on an integrated basis, and (4) insufficient oversight and monitoring. The Foundation has opportunities to strengthen its internal controls by addressing the following areas which we believe contributed to the deficiencies noted during our audit.

Suitable Means of Verification. The Foundation's labor effort reporting policies and procedures did not clearly define what constituted a suitable means of verification and the documentation required to be maintained in the award files to demonstrate first-hand knowledge of the work performed before Stony Brook officials certified effort reports. Few departmental finance or administrative officials who certified effort reports for the sampled employees fully understood the concept of "using a suitable means to validate work performed" or the federal requirement to adequately document the means of verifying the actual level of effort performed. Specifically, most department officials believed that validating labor allocations on effort reports to the payroll records was a suitable means of verifying work performed, when in fact such a process only manually confirms the accuracy of the Foundation's extraction methodology used for generating effort reports. Such a process did not provide the certifying official with any evidence or knowledge that the effort report reasonably reflected the actual work activities of the employees on NSF grants.

Grant Management Training Not Provided for Key Officials. PIs, department finance and administrative managers are the key Stony Brook officials responsible for all aspects of sponsored projects including approval of all charges and ensuring that the research is conducted in accordance with the award terms and conditions. The Foundation stated their Central Office provides training on effort reporting. However, based on our interviews with Stony Brook employees, the grants management training program did not ensure such officials were fully knowledgeable of federal, Foundation and

Stony Brook requirements for sponsored research projects, including topics such as labor effort reporting, cost transfers, and unallowable grant costs.

The Foundation's February 2006 policy entitled, *Responsibility for Certification of Salary Distribution Reports (Effort Reports)*, required the Research Foundation's Operations Manager at Stony Brook to ensure "persons certifying distribution of salary have received training on the process." In addition, the subject policy assigned responsibility to the Foundation Central Office to ensure that "operating locations are trained regarding the certification of salary distribution (effort reporting) function." Nevertheless, the audit found that Stony Brook relied primarily on informal employee training for personnel involved in the effort reporting process as the need became evident.

Thus, interviews with [REDACTED] disclosed a similar misunderstanding of the purpose of labor effort reporting on federal grants, with the prevailing view being that effort report certification was essentially a validation that the percentage of salary distributions agreed with the employee's payroll records. Such a lack of understanding of the purpose and requirements for labor effort reporting also contributed to Stony Brook certifiers approving incomplete and, therefore, inaccurate effort reports that did not properly include all state-funded work activities for employees along with externally-sponsored research work, on an integrated basis.

Similarly, the absence of a sufficiently comprehensive Stony Brook grants management training program was a contributing factor to the lack of written justification for labor cost transfers. When the Foundation implemented its new cost transfer policy and guidance,⁵ Stony Brook employees responsible for federal grants management were not provided formal training to ensure a full understanding of the newly established procedures. Thus, while the Foundation should be commended for appropriately developing and issuing new policy and procedures to address the increased risk assigned to cost transfers by the Foundation system-wide, Stony Brook grants management personnel generally continued to use its prior cost transfer process. Specifically, contrary to the established cost transfer policy, Stony Brook grants management staff stated that any payroll adjustments processed within 30 days of the original transaction did not require justification, thus none was provided.

Lastly, department finance managers and PIs allowed minor amounts of salary costs to be charged to NSF grants that were unallowable per federal cost principles. Periodic discussions associated within a structured training program may help to remind Stony Brook staff with grant responsibilities that employee work activities such as grant proposal writing and administrative-type work are unallowable on federal grants.

Integrated Effort Reporting System. Incomplete effort reports that improperly excluded state-funded employee activities occurred because the Foundation's payroll system did not capture all payroll costs paid through the separate SUNY payroll system. Two payroll systems exist because of the unique relationship between the two organizations in which the Foundation is the legal grant recipient for all federal awards, but the actual research project is being performed at Stony Brook, whose operations, including employee salaries, are largely funded by New York state funds. Therefore, employees working on NSF grants may be receiving salaries funded by the Research Foundation for the individual's sponsored projects and Stony Brook for state-funded instructional and administrative work

⁵ The Research Foundation issued both of its new Transfer of Costs Policy and Salary and Wage Cost Transfers guidance in June 2008. However, officials stated that these new policies and guidance were issued in draft form and implemented in July 2007, thus were in effect during the entire timeframe of our audit in FY 2008.

responsibilities. While the Foundation has established a Salary Offset mechanism to ensure complete and accurate reporting of employee sponsored and all work activities on an integrated basis for state-funded faculty and staff working on federal grants during the academic year, it does not consistently apply this same methodology for graduate students who concurrently have both research and teaching assistantships.

In other instances, the state-funded academic salaries of Stony Brook faculty members were improperly excluded from effort reports generated because the effort reporting periods and the campus academic terms did not coincide. However, the Foundation realized the inefficiency created by establishing a fixed effort reporting period and recently revised its system to allow Stony Brook and each SUNY campus to match its effort reporting period with the actual beginning and ending dates of each of its fall, spring, and summer sessions.

Oversight and Independent Internal Evaluations. Neither the Foundation nor Stony Brook Grants Management Office had established a monitoring program to provide sufficient oversight of the effort reporting process. Considering the Foundation's delegation of primary effort reporting responsibilities to PIs and finance managers at each academic department, the need for strong and consistent day-to-day oversight is necessary to maintain the overall integrity of the effort reporting system. Even though Grants Management Office within the OVPR had overall responsibility for federal grants management at the Stony Brook campus, it provided limited oversight of the department's certification process to ensure compliance with federal and Foundation effort reporting requirements.

Furthermore, the Foundation, which is ultimately responsible for federal grants management at Stony Brook, had not established adequate policies or procedures for a periodic and systematic review of the effort reporting system as required by OMB Circular A-21 requirements. In part, this occurred because the Foundation and Stony Brook officials believed they met the A-21 requirement with their annual OMB Circular A-133 audit.⁶ The Foundation's Internal Audit Office performed audit procedures with respect to effort reporting as part of its work under the direction and supervision of the Foundation's independent external A-133 auditors. However, the A-133 audit was not, nor was it intended to be, a comprehensive review of the effort reporting system. Such comprehensive evaluations may have disclosed the internal control weaknesses noted during our audit and recommended timely and appropriate improvements.

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 require the Foundation to implement the following recommendations:

- 1.1 Work with Stony Brook and/or the Research Foundation Central Office to provide a payroll distribution system that reasonably reflects the actual effort employees devote on sponsored projects. At a minimum, the following corrective actions need to be taken:

⁶ Under the Single Audit Act, non-federal entities that expend \$500,000 or more a year in federal awards are required to have an organization-wide audit that includes the non-federal entity's financial statements and compliance with federal award requirements. The OMB Circular A-133 established uniform requirements among federal agencies for audits of States, Local Governments, and Non-Profit Organizations.

- a. Clarify Foundation effort report policies to define what steps an administrative official should perform to demonstrate and document that a “suitable means of verification” was obtained prior to certifying effort reports, and require that such documentation be maintained in the award files.

Foundation Response

The Research Foundation agrees to include a definition of "suitable means of verification" in its Effort Reporting policies and procedures for individuals certifying who are not the PI and/or individual whose effort is being certified. The revised procedures will require documentation be retained to substantiate that suitable means of verification has been obtained. Such revised procedures will be issued no later than March 31st, 2010.

Auditor Comments

The Foundation’s proposed corrective actions are appropriate and responsive to the recommendation.

- b. Develop Foundation procedures to ensure that all academic, administrative, and research work activities, including state-funded activities, are included in all employee effort reports on an integrated basis.

Foundation Response

The Foundation does not agree that its effort reporting policies and procedures must include the reporting of all state-funded activities for employees to be compliant with the OMB Circular A-21 requirements for integrated reporting of all compensated work activities. It states that “It is well outside the scope of A-21 cost principles to impose a requirement that an institution include extra-institutional activity in its effort reports. In this instance, the ‘institution’ to which the cost principle is directed is the Foundation; a private, not-for-profit corporation which is separate and distinct from SUNY. Therefore, ‘activity for which the employee is compensated by the institution’ is by its express terms necessarily limited to that compensation paid by the Foundation; not by any extra-institutional entity, including SUNY.”

However, the Foundation acknowledges that for some SUNY employees, such as PIs, who may be expected to perform research as part of their SUNY job duties, the Foundation does report the non-research job duties on the effort report because the costs reimbursed by the Foundation could be characterized as "compensation [paid] by the institution" per the A-21 standard. However, the Foundation believes that the same effort reporting process is not applicable to graduate students because they “perform work as SUNY employees and incidentally conduct research activity for the Foundation. These graduate students are not expected, as part of their SUNY job duties, to perform any research activities; their Foundation appointments are entirely unrelated to their SUNY appointments and do not reference any duties that might be reimbursed by SUNY. Therefore, it is appropriate and consistent with A-21 for their effort reports to reflect that 100% of effort is expended on research activity with respect to the institution paying the compensation.”

Auditor Comments

We do not agree that the legal distinction of the Foundation as separate from SUNY negates the goal of effort reporting, which is to provide an affirmation of the percent of all employee academic, administrative, and sponsored research activities on an integrated basis. The same Foundation procedures for including state-funded work activities on effort reports for faculty and other staff should be consistently applied to graduate students. Therefore, the Foundation should work with NSF and its cognizant audit agency during the audit resolution process to clarify the issue and obtain a formal determination with respect to the Foundation's effort reporting process in this regard.

- c. Ensure compliance with new Foundation cost transfer policies and procedures by requiring justifications for all salary and wage cost transfers.

Foundation Response

The Research Foundation agrees to develop cost transfer monitoring reports to assist campus locations in tracking cost transfers and to develop a cost transfer module for its training center. The tentative date for the development of the training is March 31, 2010.

Auditor Comments

The Foundation's proposed corrective actions are appropriate and meet the intent of the recommendation.

- d. Establish monitoring procedures and processes as follows:
 - i. For Stony Brook to ensure effort reporting processes at the department levels are compliant with federal, Foundation and Stony Brook requirements;

Foundation Response

The Stony Brook campus agrees and is developing a training program for PI and administrators related to the federal requirements pertaining to effort reporting. The training will be scheduled once the Research Foundation Central Office has completed development of its web-based training module on effort reporting.

Auditor Comments

While proposed actions to provide training to all Stony Brook personnel with effort reporting responsibilities is a critical first step, specific campus monitoring steps are needed to ensure that all cognizant staff actually take such training and that such training has been effective in achieving campus compliance with federal and Foundation requirements in the future. Without established formal monitoring processes, Stony Brook lacks a key element of an effective system of internal controls to provide assurance of a compliant effort reporting system.

- ii. For Foundation Central Office to ensure Stony Brook compliance with Foundation and federal labor effort reporting requirements;

Foundation Response

The Foundation agrees and the Stony Brook Campus has already initiated the development of a training program for PIs and administrators to improve internal controls over effort certification. This training is being developed to specifically address effort reporting issues identified and will be coordinated with related training being developed by Research Foundation Central Office.

Auditor Comments

While both Foundation Central Office and Stony Brook actions towards developing a labor effort certification training program are a critical first step for improving internal controls, specific Foundation monitoring processes are needed to ensure the training program is delivered to all appropriate personnel. In addition, the Foundation Central Office should establish sufficient oversight to monitor the adequacy of Stony Brook's implementation and compliance with established federal and Foundation effort reporting and cost transfer policies and procedures on an ongoing basis.

- iii. For an independent 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 identify the specific organization responsible for performing the evaluation and how often such an evaluation should be conducted.

Foundation Response

The Research Foundation Office of Internal Audit and Management Advisory Services (Internal Audit) agrees to work with its external A-133 auditors to incorporate additional steps during the annual audit to account for items such as suitable means of verification. In addition, Internal Audit will enhance its current audit program related to the certification of effort reporting to satisfy the requirement for an independent evaluation. Finally, Internal Audit will utilize its annual risk assessment process to appropriately determine if and how often the OMB-mandated internal evaluation of the effort reporting system should be included in its Annual Audit Plan.

Auditor Comments

The Foundation's proposed corrective actions are appropriate and responsive to the audit recommendation.

- 1.2 Work with Stony Brook and Foundation officials to establish a formal grants management training program required to be taken periodically by all campus officials with effort reporting responsibilities. Such a training program should include discussion of effort reporting, labor cost transfers, and unallowable federal grant costs.

Foundation Response

The Research Foundation agrees and is in the process of developing an effort reporting training module for PIs and administrators that will include a discussion on cost transfers and unallowable federal grant costs as it relates to salaries and effort reporting.

Auditor Comments

The Foundation's proposed actions to include discussions of salary cost transfers and unallowable salary costs in the effort reporting training module being developed is appropriate and responsive to the recommendation.

- 1.3 Resolve the \$23,656 in total questioned costs for improper salary charges to NSF grants, consisting of [REDACTED] in salary costs and [REDACTED] in associated fringe benefit and indirect costs. (See Appendix A)

Foundation Response

The Research Foundation agrees to work with NSF to resolve the questioned costs. However, the Foundation provided corrections to the amount of indirect costs associated with the salary costs questioned for one employee, based on the actual amounts billed per its accounting records. In addition, the Foundation believes that the total costs questioned should exclude the \$1,804 already credited to the NSF grant during the course of the audit.

Auditor Comments

The Foundation's proposed actions are responsive to the audit recommendation. However, the reporting of total unallowable costs identified during our audit is appropriate, including the credit adjustment already made. We have appropriately revised the questioned indirect costs to the corrected amounts provided by the Foundation. Thus, the total questioned salary and associated fringe and indirect costs have been reduced and now total \$23,656.

Other Audit Matters

Adherence to Effort Reporting Guidelines

Although federal regulations do not specify when labor effort reports should be reviewed and certified, the Foundation has established timeframes for review and approval to ensure a timely and reliable certification process. From the end of a reporting period, Stony Brook reviewers have 90 days to complete the certification process.

Generally, Stony Brook's effort certifications are completed timely. Of the 114 effort reports reviewed, only eight effort reports, representing \$53,740 in NSF labor charges, were signed or date stamped more than 90 days after the end of the reporting period, in violation of the Foundation's policy. Of the eight reports, four were from one sampled employee who was not aware that monthly effort reports were required, and instead filed monthly time reports. Two unusually delinquent reports were due to logistical considerations caused by a faculty member who left Stony Brook for a year. The remaining two effort reports were delinquent, one by only 11 days and one by approximately 300 days, the cause of which is undetermined.

There were 10 effort reports, representing \$73,116 in NSF labor charges, which were not dated by the certifier. Four of these effort reports were submitted by the one sampled employee who was not aware that monthly effort reports were required. Of the remaining six reports, the date stamp suggests that three of the reports were returned timely and three effort reports were not submitted by the due date.

This high rate of compliance with the timeliness guidelines is commendable and should remain a goal of Stony Brook as it implements procedures to ensure that effort reports are certified only by those who possess the requisite suitable means of verification.

Recording Committed Faculty Effort on a Sponsored Project

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 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 five-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 payroll distribution and effort reporting system.

Our review of the eight faculty members included in our 30 sampled employees disclosed that the Foundation's labor effort reporting system properly tracked and reported voluntary committed cost shared effort pledged by PIs in NSF grant proposals. The Foundation's procedures include controls to identify voluntary committed cost share on new awards and ensure that it is captured, recorded in a

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

separate account linked to the award, and reported as a component of the effort reports. The Foundation commits considerable labor cost share effort, and no instances were noted in which appropriate cost share accounts were not established for new sponsored awards.

However, in one instance the Foundation did not appropriately report committed cost sharing when NSF-funded PI effort on grants was replaced with cost shared effort. Specifically, one of the faculty members reviewed charged one month less salary to a NSF grant than the funded effort included in the proposal budget. The individual was originally a senior research scientist on the subject NSF grant, but received a nine-month academic appointment with Stony Brook, which only allowed him to charge three months salary to the grant. However, the PI stated that he did actually work on the subject grant for more than the four months originally committed in the grant proposal budget during the calendar year. Therefore, the PI expended “uncharged effort” of one month’s salary amounting to \$7,444, which should have been reported as committed cost sharing on the PI’s labor effort report.

This instance of incomplete effort reporting occurred because the PI did not adhere to the Foundation’s procedural guidance for proper reporting of labor effort cost sharing. While the Foundation has a generally effective procedure to capture cost share after an award has been received and is in progress, in this instance, neither the PI nor the departmental finance manager initiated an Employee Change Form or a supplemental cost share form to document the “uncharged effort” of one month’s salary as committed cost sharing on the labor effort report. The importance of documenting voluntary cost shared effort should be reinforced with PIs and their departmental staff in order that the Foundation can document that committed PI effort on sponsored projects was actually provided. Such a discussion of the proper reporting of “uncharged PI effort” would be an appropriate topic for Stony Brook to include in the formal grants management training program recommended in the first audit finding.

Implications for Other SUNY Operating Locations

As discussed previously, the Foundation is responsible for issuing corporate policy and procedures to the 30 SUNY operating locations or campuses as necessary to ensure compliance with federal grant requirements. The opportunities to improve internal controls identified during this audit may be present at other campuses within the SUNY system, and may be relevant to other non-NSF federal awards. Considering the significant amount of total federal awards to Stony Brook (\$149 million) and to the entire SUNY system, the Foundation should evaluate the recommendations presented herein and effect appropriate modifications at other SUNY locations as deemed appropriate.

Schedule of FY 2008 Questioned Salary and Wage Costs

<u>Sample Number</u>	<u>NSF Grant</u>	<u>Salary</u>	<u>Fringes at 35%</u>	<u>Indirect Costs</u>	<u>Total</u>	
8	0531856	\$ [REDACTED]	\$ [REDACTED]	-	\$12,671.32	Note A
	0537403	[REDACTED]	[REDACTED]	[REDACTED]	7,647.97	
Subtotal					20,319.29	
11	0135550	[REDACTED]	[REDACTED]	[REDACTED]	1,804.25	Note B
23	0307454	[REDACTED]	[REDACTED]	[REDACTED]	766.47	
	0607612	[REDACTED]	[REDACTED]	[REDACTED]	766.47	
Subtotal					1,532.94	
Total		[REDACTED]	[REDACTED]	[REDACTED]	\$23,656.48	

Note A - No indirect costs were charged.

Note B - Questioned cost of \$1,804.25 were credited to the grant when identified by the auditors.

Research Foundation's Response to Draft Audit Report



THE RESEARCH FOUNDATION

The State University of New York

October 23, 2009

Mr. Michael R. Kuklok
Senior Audit Manager
National Science Foundation
4201 Wilson Boulevard
Arlington, Virginia 22230

Dear Mr. Kuklok:

Thank you for the opportunity to provide management's response to the Audit of Effort Reporting and the Payroll Distribution System at the Research Foundation of the State University of New York at Stony Brook. We are pleased with your findings that the Stony Brook payroll distribution system substantially supports payroll costs charged to NSF awards and that employee effort reports were generally consistent with the fiscal year 2008 salary costs directly charged to NSF grants. We also agree with your finding that there are opportunities for improvement in the effort reporting system. We generally concur with your recommendations for such improvements as noted in the following responses: (NSF recommendations in italics)

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 require the Foundation to implement the following recommendations:

- 1.1 Work with Stony Brook and/or the Research Foundation Central Office to provide a payroll distribution system that reasonably reflects the actual effort employees devote on sponsored projects. At a minimum, the following corrective actions need to be taken:*
 - a. Clarify Foundation effort report policies to define what steps an administrative official should perform to demonstrate and document that a "suitable means of verification" was obtained prior to certifying effort reports, and require that such documentation be maintained in the award files.*

Response:

We agree. The Research Foundation will include a definition of "suitable means of verification" in its procedures on Effort Reporting for individuals certifying who are not the PI and/or individual whose effort is being certified to. This will be completed no later than March 31st, 2010. The Research Foundation will also require in its procedures that documentation be retained to substantiate suitable means of verification have taken place.

- b. *Develop Foundation procedures to ensure that all academic, administrative, and research work activities, including State-funded activities, are included in all employee effort reports on an integrated basis.*

Response:

We agree that the Foundation's effort reports should and 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 . . .". We disagree, however, that to be A-21 compliant, Foundation procedures must ensure all employee effort reports include all academic, administrative, and research work activities, including State-funded activities. It is well outside the scope of A-21 cost principles to impose a requirement that an institution include extra-institutional activity in its effort reports. In this instance, the "institution" to which the cost principle is directed is the Foundation; a private, not-for-profit corporation which is separate and distinct from SUNY. Therefore, "activity for which the employee is compensated by the institution" is by its express terms necessarily limited to that compensation paid by the Foundation; not by any extra-institutional entity, including SUNY.

The Foundation adheres closely to the requirements of A-21 and in consideration of the contractual relationship between the Foundation and SUNY, the Foundation has gone so far as to ensure that where a SUNY employee is expected to perform research as part of his or her SUNY job duties, the Foundation undertakes to allocate the non-research job duties on the Foundation's effort report because the costs reimbursed by the Foundation could arguably be characterized as "compensation [paid] by the institution". However, this situation is clearly distinguishable from the cases cited herein where graduate students perform work as SUNY employees and incidentally conduct research activity for the Foundation. These graduate students are not expected, as part of their SUNY job duties, to perform any research activities; their Foundation appointments are entirely unrelated to their SUNY appointments and do not reference any duties that might be reimbursed by SUNY. Therefore, it is appropriate and consistent with A-21 for their effort reports to reflect that 100% of effort is expended on research activity with respect to the institution paying the compensation.

- c. *Ensure compliance with new Foundation cost transfer policies and procedures by requiring justifications for all salary and wage cost transfers.*

Response:

We agree. The Research Foundation has developed cost transfer monitoring reports to assist campus locations in monitoring and tracking cost transfers. In addition, the Research Foundation will be developing a cost transfer module in our training center on this topic. The tentative date for the development of this training is March 31, 2010.

d. *Establish monitoring procedures and processes as follows:*

- i. *For Stony Brook to ensure effort reporting processes at the department levels are compliant with federal, Foundation and Stony Brook requirements;*

Response:

We agree. The Research Foundation of SUNY at Stony Brook is developing a training program for PI and administrators related to the federal requirements pertaining to effort reporting. The training will be scheduled once the Research Foundation has finalized their web based training on effort reporting.

- ii. *For Foundation Central Office to ensure Stony Brook compliance with Foundation and federal labor effort reporting requirements; and,*

Response:

We agree. The Research Foundation has already initiated the development of a training program for principal investigators and administrators to improve internal controls over effort certification. This training is being developed to specifically address these issues and will be coordinated with related training developed by Research Foundation Central Office.

- iii. *For an independent 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 identify the specific organization responsible for performing the evaluation and how often such an evaluation should be conducted.*

Response:

We agree. Research Foundation Office of Internal Audit and Management Advisory Services (Internal Audit) will work with our External Auditor, KPMG, to incorporate, where necessary, additional steps during their annual A-133 audit to account for items such as suitable means of verification. In addition, Internal Audit will enhance their current audit program related to the certification of effort reporting to satisfy the requirement for an independent evaluation. Finally, Internal Audit performs an annual risk assessment to determine which areas/campuses to audit each year when developing audit plans. Internal Audit considers effort reporting in their risk assessment as well as: changes in effort or payroll systems, changes in regulations, key personnel, time elapsed since last review, and feedback from management. This risk analysis will contribute to the independent evaluation of effort reporting.

- 1.2 *Work with Stony Brook and Foundation officials to establish a formal grants management training program required to be taken periodically by all campus officials with effort reporting responsibilities.*

Such a training program should include discussion of effort reporting, labor cost transfers, and unallowable federal grant costs.

Response:

We agree. The Research Foundation effort reporting training for PI and administrators will include a discussion on cost transfers and unallowable federal grant costs as it relates to salaries and effort reporting.

1.3 Resolve the remaining \$31,422 in total questioned costs for improper salary charges to NSF grants, consisting of [REDACTED] in salary costs (which exclude the \$878 in costs that SUNY has removed from the NSF award) and [REDACTED] in associated fringe benefit and indirect costs.

Response:

We agree. The Research Foundation is working to resolve the costs identified above. We have reviewed the original questioned costs of \$31,422 and believe the figure should be reduced to \$21,852. We have attached a schedule supporting the revised number. The changes involve the correction of the F&A assessment as well as a correction the fringe benefit charge on sample #8, and to remove the full value of sample #11 for salary, fringe, and F&A from the total as this cost was previously removed from the award. It should be noted that the majority of these costs have been determined to involve “unlike circumstances” and have been considered to be allowable by NSF in future funding periods in the continuation funding proposal.

Sincerely,

[REDACTED]

Internal Audit & Management Advisory Services

c: [REDACTED], KPMG
[REDACTED], RF President
[REDACTED], Stony Brook University
[REDACTED], Stony Brook University
Audit Committee
RF Management Staff