

NATIONAL SCIENCE FOUNDATION  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230



OFFICE OF  
INSPECTOR GENERAL

**MEMORANDUM**

Date: February 10, 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  
Senior Audit Manager

Subject: NSF OIG Report Number 10-1-005  
Audit of Effort Reporting System, Washington University in St. Louis

Attached is the final report prepared by Williams, Adley & Co. LLP, an independent public accounting firm, on the audit of the payroll distribution and effort reporting system used by the Washington University in St. Louis (WUSTL) 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 our response has been provided to these comments. The full text of the University's comments is included as *Appendix A* to the audit report.

The audit found that WUSTL's effort reporting system generally supports salary costs charged to NSF awards. However, the audit identified some areas of concern that WUSTL should address for enhanced implementation and oversight of its effort reporting system. Specifically, improvements were needed over effort report training, documenting the approval of prospective workload changes, and integrating the effort reports to include all academic, administrative, and research effort for both sponsored and all other work activities.

We made audit recommendations to improve the internal controls over the effort reporting process at WUSTL. 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 issuance of the audit report pursuant to *Office of Management and Budget Circular A-50*, please coordinate the development of the Corrective Action Plan with our office during the resolution period. Each audit recommendation should not be closed until NSF, in coordination with DHHS, determines that WUSTL has adequately addressed the recommendation 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 & Co'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 & Co. auditors on-site at the grantee;
- Coordinated periodic meetings with Williams, Adley & Co. and OIG management to discuss audit progress, findings, and recommendations;
- Reviewed the audit report, prepared by Williams, Adley & Co. to ensure compliance with *Generally Accepted Government Auditing Standards* and the NSF Audit Program; and
- Coordinated issuance of the audit report.

Williams, Adley & Co. LLP is responsible for the attached audit report on WUSTL'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 Mark Kim at 703-292-8531.

Enclosure

cc: Gilbert Tran, Technical Manager, Office of Management and Budget  
Martha Rubenstein, Acting Chief Financial Officer and Director, BFA/OAD  
Alexander Wynnyk, Branch Chief, BFA/DIAS  
Charles Zeigler, Special Assistant, BFA/DIA

# **Audit of Effort Reporting System**

**Washington University in St. Louis**

**National Science Foundation  
Office of Inspector General**

**February 16, 2010  
NSF OIG 10-1-005**

Audit Performed by:  
Williams, Adley & Company, LLP  
1250 H Street N.W., Suite 1150  
Washington, DC 20005

*This page intentionally left blank*

## **Executive Summary**

This audit report provides the results of our review of the effort certification system used by Washington University in St. Louis (WUSTL) to validate salaries and wages charged to National Science Foundation (NSF) grants. In fiscal year (FY) 2008, WUSTL's Federally-sponsored projects totaled approximately \$459 million, of which \$27 million or 6 percent was funded by NSF. Of the \$27 million, approximately \$6.3 million were for labor costs directly charged to NSF awards. This audit is one in a series of Office of Inspector General (OIG) reviews of the labor effort distribution systems being conducted at NSF's top-funded universities. The review's main purpose is to determine whether the internal controls over salary and wage costs claimed on NSF grants were properly managed, accounted for, and monitored.

Our review disclosed that WUSTL generally has a well-established and sound Federal grants management program. Our review of 30 sampled employees, with total FY 2008 NSF salary charges of \$833,769, found that the effort reporting system generally supports salary costs charged to NSF awards. The employee effort reports were generally consistent with the fiscal year 2008 salary costs of \$6.3 million directly charged to NSF grants. Notable accomplishments at WUSTL include timely certifications of labor effort reports and strong support by management and those involved with the effort reporting process to develop accurate effort reports that meet Federal and University guidelines.

However, the audit identified some areas of concern that WUSTL should address for enhanced implementation and oversight of its effort reporting system. Specifically, during the period under audit, the University did not require effort report training for all campuses. Although WUSTL had developed excellent effort reporting training materials, in fiscal year 2008 the university required only its medical school campus personnel to attend training. During the audit interviews, 29 of the 30 sampled employees<sup>1</sup> indicated that they did not receive recent training in this area. Although WUSTL officials commented that training is not required under the federal guidelines, nonetheless, during fiscal year 2009 they expanded the required training to include all faculty involved in the effort report process.

In addition, WUSTL's effort reporting system was not fully integrated for 9 of 30 sampled personnel to include all academic, administrative, and research effort for both sponsored and all other work activities, and it recorded effort for individual employees that sometimes included entries exceeding 100 percent (although we did not see evidence that the net effort for any individual ever exceeded 100 percent). This issue should be resolved with the implementation of the new electronic Personnel Activity Reporting System (ePARS) in January 2009. Finally, WUSTL's policies could provide clearer guidance on how to process significant prospective changes to salary distribution.

Although no significant deficiencies were identified during the audit, certain issues, if not effectively addressed, could lead to internal control weaknesses and impact the reliability of the salary portions of WUSTL's salaries and wages charged to both NSF sponsored projects as well as the salary portion of other Federal agency funding.

---

<sup>1</sup> 25 of the 30 sampled employees were from the non-medical campus (Danforth Campus)

WUSTL's oversight of the effort reporting system was generally well established through daily oversight by the Sponsored Projects Accounting Office and periodic reviews by the Compliance Office. The ongoing effort reporting audits by the Compliance Office are done on a school and department basis and it would be beneficial to periodically perform audits of the entire effort reporting process, particularly of related policies.

During the course of our audit, WUSTL has addressed most of our concerns and updated its policies and procedures to enhance its compliance with Federal requirements. As a result of the positive steps undertaken by WUSTL, our recommendations are primarily directed at monitoring the enacted changes to ensure effective implementation. We also recommended that WUSTL further update its policies and procedures to address other issues not yet addressed by the University.

A draft report requesting comments on the audit findings and recommendations was issued to WUSTL. The University generally concurred with the recommendations with the exception that additional controls were needed over significant prospective changes. In recognition of the areas of concern identified in the report, WUSTL has revised or plans to revise certain WUSTL policies and procedures to address opportunities for improvement in effort reporting.

WUSTL's responses, once fully implemented, should address most of the audit recommendations. NSF should work with the cognizant audit agency and/or WUSTL to ensure the University develops an acceptable corrective action plan to resolve each audit recommendation. We have summarized WUSTL'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 A.

# **TABLE OF CONTENTS**

|   |  |
|---|--|
| <b>EXECUTIVE SUMMARY</b>                                | i  |
| <b>INTRODUCTION</b>                                     |  |
| Background  | 1  |
| Objectives, Scope, and Methodology                      | 2  |
| <b>FINDING AND RECOMMENDATIONS</b>                      |  |
| Improvements Needed to Ensure Reliable Effort Reporting | 5  |
| <b>APPENDIX</b>   |  |
| Appendix A: WUSTL Response to the Audit Report          | 11   |
| <b>ACRONYMS</b>   |  |
| NSF   | National Science Foundation                    |
| PI  | Principal Investigator                         |
| OIG   | Office of Inspector General                    |
| OMB   | U.S. Office of Management and Budget           |
| PARS  | Personnel Activity Reporting System            |
| ePARS   | Electronic Personnel Activity Reporting System |
| SPA   | Sponsored Projects Accounting                  |
| RO  | Research Office                                |
| OGC   | Office of Grants & Contracts                   |

---

## INTRODUCTION

---

### BACKGROUND

Approximately one third of the National Science Foundation (NSF) award funds are provided for salaries 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 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 the internal controls to ensure salary and wage costs claimed on NSF grants are properly managed, accounted for, and monitored. This audit, involving Washington University in St. Louis (WUSTL) is one of the planned reviews of such labor effort distribution systems.

WUSTL is an independent university known internationally for excellence in teaching and research and for the quality of its faculty and student body. Founded in 1853, the University ranks among the nation's leaders in higher education. Its undergraduate, graduate, and professional programs are highly regarded. Twenty-two Nobel laureates have been associated with the University. The Faculty has received many honors, including major literary prizes; national and international fellowships; major awards for teaching, research, and service; and honors from governments of other nations. Instructional faculty in all schools totals 3,170 including both full-time and adjunct faculty.

The University is a major research institution and derives substantial funding from sponsored research funding, student tuition, and other government sources. For FY 2008, the University received \$548.3 million in sponsored awards, which included approximately \$459 million, or 84 percent, in research and development grants from the Federal government. Approximately \$27 million, or 6 percent, of the Federally-sponsored research and development project awards were provided by NSF.

In order to manage the significant number of grants it receives, WUSTL has established three primary offices associated with the Federal grants management process.

*Research Office (RO)* - reviews, approves, and provides institutional signature for the Danforth Campus (non-Medical School) grant administration and university-wide contract administration. The RO functions as a liaison between sponsors and the principal investigators in matters of policy, procedures, and regulations and provides communication, education, and training on proposals, awards, and contracts to the WUSTL research community. The RO reports to the Vice Chancellor for Research

*Office of Grants & Contracts (G&C)* reviews and provides institutional signature for WUSTL School of Medicine proposals and awards. G&C performs the same functions as RO for the Medical School. G&C reports to the Vice Chancellor for Research

*Sponsored Projects Accounting (SPA)* - provides financial stewardship, policy interpretation and compliance assurance to the University's research community and the sponsoring agencies. SPA reports to the Vice Chancellor of Finance.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

**Audit Objectives.** Our audit objectives were: (a) to evaluate whether WUSTL'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) to 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 focused on WUSTL'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 WUSTL population of labor costs charged to NSF grants. Specifically, the FY 2008 salary and wage costs for the 30 sample employees tested amounted to \$833,769 and were supported by 80 PARS (Personnel Activity Reporting System) effort reports.

We interviewed key WUSTL officials, and reviewed the organization structure, and written policies and procedures to assess the "attitude" or "tone at the top" toward grants management and compliance in general as it affects effort reporting.

We compared WUSTL's policies and procedures to Federal and NSF requirements for allocating labor costs to Federal awards and interviewed personnel involved in effort reporting activities 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 at WUSTL charged to NSF awards met the control objectives:

- Effort reports documenting 100 percent of each employee's compensation allocated to sponsored projects for each reporting period.
- Appointment letters or other documents supporting the approved annual salary for employees.

- Salary Distribution Reports (SDR) 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. We also interviewed administrative officials in the Academic Departments of the sampled employees to determine procedures for processing and monitoring employee salary charges to Federal grants. Additionally, we interviewed selected PIs to determine the number of projects they were responsible for and whether they had ever charged grants in the summer for work performed in the academic year.

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. 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 WUSTL 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 SDR 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 WUSTL followed Federal, NSF, and University requirements on charging labor costs to NSF projects.

The audit determined whether WUSTL officials approved and signed effort reports in a timely manner by comparing the date the effort reporting period ended to the date the reports were approved and signed. Timeliness was based on WUSTL's internal policy.

Finally, we reviewed prior audit reports on WUSTL's Federal grants management program performed by OMB Circular A-133 auditors and WUSTL's internal auditors to determine whether there were any audit findings and recommendations on labor effort reporting. Specifically, we interviewed the executive director of compliance and internal audit and the compliance office director and reviewed their reports, as needed, to gain an understanding of the scope and procedures used in any audits of WUSTL's payroll distribution reporting system and/or management of labor costs charged to Federal projects. We reviewed the A-133 audit

working papers to ascertain the actual audit scope and procedures used by the auditors in order to (i) preclude any duplicative audit work and (ii) to determine the specific work performed on the labor effort reporting system. Accordingly, we met with WUSTL's A-133 auditors to discuss their overall audit scope and procedures used for reviewing salaries and wages charged to Federal awards and the labor effort reporting system.

We performed our on-site audit work at the WUSTL campus during a two-week period in March 2009, and an additional two-week period in May 2009. We completed the remainder of the audit work through phone interviews, emails, and documentation requests through October 2009. We were engaged to perform the above audit objectives by the NSF-OIG, and 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.

---

## FINDING AND RECOMMENDATIONS

---

### Enhancements to Effort Reporting Process

#### OMB Requirements and University Policy for Labor Effort Reporting

OMB Circular A-21, *Cost Principles for Educational Institutions*, requires certification of labor effort/activity contributed by employees on Federal awards. Specifically, paragraph J10.b.(2)(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.” Therefore, the University’s effort reports should reflect 100 percent of an employee’s sponsored and non-sponsored 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*,<sup>2</sup> 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. 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.”

Furthermore, Circular A-21 recognizes that each institution “should employ sound management practices” in applying the Federal cost principles for charging costs on sponsored projects. Also, Circular A-110, section .21 provides that recipients are responsible for written procedures that ensure the 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.”<sup>3</sup> Thus, WUSTL is required to *have written procedures* to ensure costs charged to sponsored projects are in full compliance with Federal cost principles and the terms and conditions of the sponsored agreement.

---

<sup>2</sup> 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.”

<sup>3</sup> Paragraphs C.4.d. (1) and A.2.e., respectively, of OMB Circular A-21, *Cost Principles for Educational Institutions*.

## WUSTL's Effort Reporting System

WUSTL utilized a paper-based PARS effort reports during fiscal year 2008 and prior years. Starting in January 2009, the University migrated towards a new electronic Personnel Activity Reporting System (ePARS). WUSTL implemented a well-established effort reporting system that substantially supported payroll costs charged to NSF awards. However, there were some internal control areas that could be enhanced to increase the reliability of the process to substantiate the level of effort associated with salary costs. Specifically, WUSTL's policies and procedures related to the effort reporting training program and other areas should be expanded.

### Effort Reporting Areas of Improvement

*Effort Report Training Was Not Required for All WUSTL Faculty and Staff.* Although PIs and department administrative officials play a key role in the effort reporting process, WUSTL did not have a university-wide policy requiring effort reporting training for all principal investigators, department heads, business administrators and other persons involved in the effort reporting process. During audit interviews, 29 of the 30 sampled employees indicated that they did not receive recent training in this area. While the audit did not identify any specific deficiencies concerning labor effort reporting, we have a concern that current and future personnel in key reporting roles should be kept sufficiently aware of reporting requirements.

To its credit, WUSTL had developed excellent training material, both web-based and live instructional training that was very comprehensive and covered all the key areas in effort reporting process. However, during fiscal year 2008 WUSTL's policy required mandatory training only for the Medical School faculty. Although WUSTL officials implemented required effort report training for the Danforth campus faculty in FY 2009, they stated that OMB A-21 did not contain specific requirements as to the exact nature of instructions and training. We agree that OMB A-21 and related circulars do not require mandatory training, but the Circulars were not intended to provide specific requirements, but rather overarching guidance for the variety of institutions they cover. Institutions are expected to identify and employ the necessary controls to fully implement the guidance. As such, we believe that mandatory training of key personnel in the effort reporting process is critical to the reliability of the effort reporting program.

*Effort Reports were not Integrated.* Prior to January 2009, WUSTL's PARS generated paper-based effort reports for only the periods that the individual worked on sponsored projects.<sup>4</sup> For 9 of 80 effort reports that we reviewed, related to the 30 sample employees, the reports did not present the salary distribution percentages for the entire effort reporting period, only for the months in which some salary was charged to a sponsored project. The effort expended on the non-sponsored activities during the reporting period was not always reflected on the effort reports. Therefore, the PARS did not include both sponsored and all other activities on an integrated basis to reflect 100 percent of the employee's activities during the full effort reporting period. As an example, a PI's semi-annual effort report showed the reporting period as July to December 2007, and his activity period as July 2007, because he worked on sponsored activity

---

<sup>4</sup> All Medical School faculty certify their effort on a semi-annual basis, regardless of their involvement with sponsored projects (i.e., they treat patients).

only in July 2007 during this reporting period. His effort report also showed 100 percent effort on the sponsored activity for the month of July since he devoted 100 percent of his effort to this one activity during this month. However, this individual expended effort on non-sponsored activities between July to December, but his effort on the non-sponsored activities during the reporting period was not reflected on his effort report. If the non-sponsored effort had been properly reflected, the effort percentages would have been distributed 17 percent to the sponsored activity and 83 percent to non-sponsored activity.

In addition, Washington's PARS did not properly record labor effort percentages in the effort reports for two of three cost transfers tested. When Washington initiated these cost transfers, the PARS did not recalculate the correct percentages of effort for a particular account to record on the effort report. Instead, the system merely added the cost transfer-in as additional effort in excess of 100 percent for one account and treated the cost transfer-out as a negative effort on the other account. Therefore, there were some accounts/activities with effort that exceeded 100 percent and other accounts/activities with negative effort that exceeded 100 percent. In one example, a certified effort report recorded negative 400 percent effort to a non-sponsored university account/activity and 500 percent effort to a sponsored NSF account/activity. Effort reports should reflect no more than 100 percent effort on an individual account and should not show negative effort on an individual account. In another example, a certified quarterly effort report recorded 50 percent effort to a non-NSF sponsored account/activity and a 100 percent effort to a NSF activity code and a negative 50 percent to a university default account. This resulted in 150 percent effort between the two sponsored accounts/activities that was offset by a negative 50 percent effort on the University account. As evidenced by these two examples, it is difficult to determine the level of effort expended on these specific projects since the total effort did not always result in 100 percent.

Based on our initial review of the new ePARS, the system appears to have resolved both the integration and the cost transfer issues identified above. Therefore, the university should periodically evaluate the new ePARS' performance to ensure it is working as intended and that this issue does not resurface.

*Adequate Guidance Not Provided for Significant Prospective Changes* – Although WUSTL's policies require employees to revise the effort report when there are significant changes (also known as prospective changes to the effort report), the University did not provide detailed written guidance about the process required for identifying significant prospective changes or the written justification and approval required for entering those changes into the payroll distribution system. Rather, the university relied on various departments to make their own determinations and entries regarding significant changes. Some departments processed changes based solely on verbal notifications from PIs and therefore, no written documentation of justification and approval was maintained. In other cases, departments relied on informal e-mails to document the request for change. WUSTL did not have a policy to print or maintain such e-mails to support the changes entered into the system.

## Internal Evaluation of Effort Reporting

The lack of a comprehensive internal audit evaluation of Washington's effort reporting system, in part, may have led to these areas of improvement not being detected earlier. Although WUSTL had established an effective audit process through its Compliance Office, the audits reviewed did not cover all aspects of the effort reporting process. Our review of three recent audits of the effort reporting system that were conducted by the University's Compliance Office found that the scope of these audits covered important areas related to effort reporting such as allowability of expenditures charged to federal awards, certifications, and cost transfers. However, the audits did not look at other important aspects of the overall effort reporting processes. For example, there was no review of the policies and procedures itself and internal controls over the interaction between the University's Departments of Human Resources, Payroll, Sponsored Projects Accounting, the Research Office and Departmental Business Managers. It was noted that the Internal Audit Department does conduct system-wide audits of internal controls which does partially address these other areas.

Despite the fact that the Compliance Office's effort reporting audits were not fully comprehensive, we commend the University and Compliance Office for targeting certain key areas similar to areas that we reviewed in our audit. Equally important, when the audits identified problems with effort reporting, the University took appropriate corrective action.

During the audit period, WUSTL took actions that should correct most of the areas of concern identified above when fully implemented. Therefore, the recommendations will primarily address monitoring the actions to ensure effective implementation of the actions.

## **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. Develop and implement clear written policies and procedures:
  - a. For monitoring and tracking the mandatory training policy implemented in fiscal year 2009, to ensure it is functioning as management intended and all persons involved in federal grants and effort reporting are receiving appropriate training and refresher courses as necessary.

## **WUSTL's Response**

As a result of the implementation of the new electronic effort reporting system (ePARS), the University is in the process of revising its effort reporting policies and procedures. A section regarding required and available training will be added to the document and the University will continue to refresh, expand, and monitor their training program as necessary to enhance compliance.

### **Auditors' Comments**

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

- b. For periodically evaluating the new ePARS' performance to ensure effort reports document 100 percent of each employee's compensation allocated to sponsored and non-sponsored projects for each reporting period.

### **WUSTL's Response**

The ePARS system that was implemented in January 2009 maintains 100% of the base salary data for each individual. The employee is required to certify his/her salary distribution percentages for all months within the certification period. This methodology is documented in the ePARS training materials, and verification of this full coverage will be included in the scope of periodic audits and compliance reviews of selected departments and units.

### **Auditors' Comments**

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

- c. That provide guidance on how to identify and process significant changes, including proper approval and what documentation is required to be maintained by verifying officials.

### **WUSTL's Response**

WUSTL maintains an on-line electronic payroll system that is designed to meet the needs of a very diverse and decentralized academic environment. WUSTL believes that policies and procedures and training materials regarding the payroll system provide sufficient guidance to staff and approving officials and that additional prospective documentation requirements are not necessary, in part because all effort is certified by or on behalf of each individual after the work period.

### **Auditors' Comments**

WUSTL disagreed with our recommendation. However, based upon our review of the payroll and effort reporting process documentation provided by WUSTL, interviews with university personnel, and our understanding of the requirements of OMB Circular A-21, we believe that WUSTL's diverse and decentralized environment would benefit from explicit guidance to enhance this process.

- d. For including periodic audits of the University's overall effort reporting processes, policies and related internal controls in the Compliance Office's audit plans.

**WUSTL's Response**

WUSTL's Compliance Office will enhance the effort reporting audit work it currently performs in schools and departments by including periodic audits of the University's overall effort reporting processes, policies, and related internal controls.

**Auditors' Comments**

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



Sponsored Projects Accounting

February 2, 2010

██████████  
Williams, Adley & Co. LLP  
1250 H Street NW, Suite 1150  
Washington, DC 20005

RE: Response to the DRAFT Audit Report for the Effort Reporting System at Washington University in St. Louis

Dear ██████████

Washington University in St. Louis (WUSTL) appreciates the opportunity to respond to the DRAFT audit report of our effort reporting system. The University has devoted a great deal of attention and resources over the years to our effort reporting process, and the results of this audit indicate that our effort reporting system is sufficient and compliant with OMB Circular A-21 and the National Science Foundation's (NSF) Proposal and Award Policies and Procedure Guide. Our commitment to this issue should be particularly evident in our recent upgrade to an electronic, web-based effort reporting system (ePARS) that we believe enables even better and more transparent compliance.

We would like to note our appreciation to NSF Office of the Inspector General and your audit team for their considered and professional attention to all relevant matters during the audit. The University offers the following response to the recommendation. Italicized sections are excerpts from the report.

**Recommendation:**

*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. *Develop and implement clear written policies and procedures:*
  - a. *For monitoring and tracking the mandatory training policy implemented in fiscal year 2009, to ensure it is functioning as management intended and all persons involved in federal grants and effort reporting are receiving appropriate training and refresher courses as necessary.*

WUSTL's Response

Background: WUSTL has been committed to providing sufficient training in all research compliance matters. OMB Circular A-21 and the NSF Proposal and Award Policies and Procedure Guide do not contain specific requirements as to the exact nature of instructions and training, therefore, WUSTL has created and maintained the effort reporting training program in recent years as follows:

- In December 2004, Sponsored Projects Accounting and Research Education implemented a six part training program for department, school and university administrators that focused on financial management of sponsored projects. This training program continues to be offered on a semi-annual basis to employees on both campuses, and it includes an entire session devoted to effort reporting and salary management.
- "Financial Awareness" training-- which included effort reporting issues -- was provided to faculty in 2005.
- The WUSTL School of Medicine implemented a mandatory Effort Reporting Education Program for Faculty in November 2005, and this same effort reporting training was available to all Danforth faculty and to all staff on a voluntary basis thereafter.
- The University decided to adopt a policy to require mandatory completion of effort reporting training by the Danforth faculty as part of the ePARS implementation in FY 2009 before the NSF audit began, and as a proactive step consistent with the University's commitment to compliance regarding the management of federal grants.
- Individuals who complete effort reporting training, as well as other research related training, are tracked in a database maintained by Office of the Vice Chancellor for Research.

WUSTL maintains that its effort reporting instructions and training program were sufficient and fully compliant with the applicable federal guidelines during the audit period.

Specific Response: As a result of the implementation of the new electronic effort reporting system (ePARS) during 2009, the University is in the process of revising the entire set of effort reporting policies and procedures. A section regarding required and available training will be added to the document, and we will continue to refresh, expand and monitor our training program as necessary to enhance compliance.

- b. For periodically evaluating the new ePARS' performance to ensure effort reports document 100 percent of each employee's compensation allocated to sponsored and non-sponsored projects for each reporting period.*

WUSTL's Response

Background: WUSTL maintains that the effort reports generated during the audit period were sufficient and fully compliant with the applicable federal guidelines. WUSTL would also like to clarify that the final statement in the paragraph regarding effort percentages related to cost transfers is not accurate. The certified effort reports that were provided and reviewed by the auditors displayed total net effort for all activities as a 100% figure, notwithstanding that for two individuals there were larger positive and negative amounts denoted for individual accounts.

Specific Response: The ePARS system that was implemented in January 2009 maintains 100% of the base salary data for each individual. The employee is required to certify his/her salary distribution percentages for all months within the certification period. This methodology is documented in the ePARS training materials, and verification of this full coverage will be included in the scope of periodic audits and compliance reviews of selected departments and units.

- c. That provide guidance on how to identify and process significant changes, including proper approval and what documentation is required to be maintained by verifying officials.*

WUSTL's Response

Background: Documentation and the related approvals for the salary distribution changes reviewed during the audit were provided to the audit team, and WUSTL maintains that this data was sufficient and fully compliant with the applicable federal guidelines.

Specific Response: WUSTL maintains an on-line electronic payroll system that is designed to meet the needs of a very diverse and decentralized academic environment. Prospective salary distribution changes are fully documented within the payroll system. Each distribution modification is routed for various on-line approvals within the academic departments and/or schools, as necessary. We believe policies and procedures and training materials regarding the payroll system provide sufficient guidance to staff and approving officials, and that additional prospective documentation requirements are not necessary, in part because all effort is certified by or on behalf of each individual after the work period.

- d. For including periodic audits of the University's overall effort reporting processes, policies and related internal controls in the Compliance Office's audit plans.*

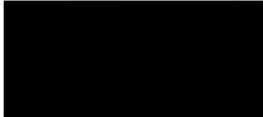
WUSTL Response to DRAFT Report  
Page 4

WUSTL's Response

Specific Response: WUSTL's Compliance Office will enhance the effort reporting audit work it currently performs in schools and departments by including periodic audits of the University's overall effort reporting processes, policies, and related internal controls into its audit plans.

If you require any additional information regarding our responses, please contact me directly at 314-935-7089 or [jindhart@wustl.edu](mailto:jindhart@wustl.edu). Again, thank you for your cooperation throughout this audit.

Sincerely,



Assistant Vice Chancellor for Finance &  
Director, Sponsored Projects Accounting

C: Michael R. Kuklok  
Mark Y. Kim

