

NATIONAL SCIENCE FOUNDATION
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**OFFICE OF
INSPECTOR GENERAL**

MEMORANDUM

DATE: March 10, 2011

TO: Martha A. Rubenstein
Director and Chief Financial Officer
Office of Budget, Finance, and Award Management (BFA/OAD)

FROM: Dr. Brett M. Baker /s/
Assistant Inspector General for Audit

SUBJECT: Limited Scope Review: Effort Reporting and Cost Sharing Improvements Needed at California State University – Fresno, Report Number OIG-11-6-004

This memorandum report provides the results of our limited scope review of federal grant management processes at the California State University – Fresno (Fresno or Foundation).¹ The review was part of an on-going series of evaluations being performed by the Office of Inspector General (OIG) to provide oversight of National Science Foundation (NSF) funds awarded under the American Recovery and Reinvestment Act of 2009 (ARRA or Recovery Act). A prior report on the University’s processes for quarterly ARRA reporting was issued on June 18, 2010. This report addressed our evaluation of whether Fresno has adequate internal controls in place to provide reasonable accountability over NSF grant funds. Of the 10 NSF grants totaling \$5.3 million awarded as of December 31, 2009, four awards totaling \$3.5 million (65 percent) were ARRA funded. Considering the increased accountability for Recovery Act funds and the significant increase in total NSF funding provided by ARRA grants, it is important that Fresno has the capabilities and systems in place to provide proper stewardship of federal assistance funds. A detailed description of the background, objectives, scope, and methodology can be found in Appendix A.

Our review found that Fresno had established a financial management system to separately track and account for NSF grants and generally had adequate written policies and procedures for administering federal awards. However, the review identified two areas where improvements were needed to be fully compliant with federal requirements. Specifically, Fresno

¹ The California State University Fresno Foundation (Foundation) is a non-profit auxiliary corporation that is the legal recipient of federal grants in behalf of the University. As such, the Foundation is responsible for the administrative and financial management of federal awards in compliance with federal standards. As separate legal entities, the Foundation and the University each have separate personnel management systems.

needs to (i) implement an effective labor effort reporting system for confirming the reasonableness of salary charges to sponsored projects and (ii) appropriately document NSF cost sharing commitments.

Fresno officials were aware that significant improvements were needed in its effort reporting system to be fully compliant with federal requirements. However, due to the severe budgetary shortfalls in the State of California in recent year, funding was not available to initiate the required improvements. Furthermore, we found that while the Foundation had established adequate cost sharing policies and procedures, cognizant officials were not complying with the required processes for tracking and documenting NSF cost sharing commitments.

A draft of this memorandum was provided to Fresno management for its review and comment. In addition, a written outline of the review results was presented to the Foundation at the completion of our onsite review work so that timely actions could be taken to implement improvements needed to promote the highest degree of accountability over NSF grant funds. Fresno concurred with the findings and stated that they are currently developing several processes to address the recommendations. Fresno's response can be found in its entirety in Appendix B.

We consider Fresno's internal control procedural weaknesses identified in the audit findings to be significant. Accordingly, we request that your office work with the Foundation and the cognizant audit agency, the Department of Education (ED), to develop a written Corrective Action Plan detailing specific actions taken and/or planned to address each audit recommendation. Milestone dates should be provided for corrective actions not yet completed.

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

Cc: Mary Santonastasso, Division Director, DIAS
Dale Bell, Deputy Division Director, DIAS
Alex Wynnyk, Branch Chief, CAAR/DIAS

Audit Findings and Recommendations

Finding 1- Effort Reporting System Not in Compliance with Federal Regulations

Federal regulations² require that salaries and wages charged to sponsored projects be based on payroll records documented in accordance with the generally accepted practices of colleges and universities. Specifically, “the payroll distribution system must be incorporated into the official records of the institution; reasonably reflect the activity for which the employee is compensated by the institution; and encompass both sponsored and all other activities on an integrated basis. . . The system will provide for independent internal evaluations to ensure the system’s effectiveness and compliance with the above standards.”

Our review found that Fresno needs to establish a payroll distribution and effort reporting system that is fully compliant with federal requirements. The Foundation's manual effort reporting system and time keeping system lack sufficient controls to ensure the integrity of the certification process for confirming the reasonableness of salary charges to NSF projects. A discussion of the control weaknesses identified follow.

- **Manual System Compromises the Integrity of the Labor Certification Process**

Contrary to federal regulations, Fresno’s effort reporting process is not “incorporated into the official records of the institution.” Specifically, each salaried employee is required to manually prepare and submit their own effort reports. This paper-based process requires faculty members, graduate students, and other exempt employees to perform complicated calculations of their own time and salary components from two different payroll systems to individually develop their own labor effort reports. For example, faculty members must manually obtain salary information for their university appointment, overload salaries, cost shared time, and reimbursed release time on sponsored projects at the end of each academic semester from both the University and Foundation payroll systems. The individual manually enters the information into a labor effort worksheet, which converts the various salary charges into effort percentages. Given the manual nature of the process and the lack of established Foundation controls to validate the accuracy of these employee-developed effort reports, there is a high potential for error that results in a lack of integrity in the labor certification process.

Fresno officials acknowledged that significant improvements are needed in its effort reporting system. Specifically, the Foundation had an independent evaluation of the effort reporting system performed and a draft report was issued in June 2008. The subject report states that “There is an urgent need for the Foundation to establish an effort reporting system to be in compliance with federal guidelines, and prevent itself from potential liabilities and disallowances from funding agencies.” This feasibility study offered four alternatives for establishing a compliant and effective effort reporting system. However, the Foundation has not been able to initiate any improvements because of funding shortages caused by the severe budgetary shortfalls in the State of California in recent years.

² 2 CFR Part 220, Cost Principles for Educational Institutions (Formerly OMB Circular A-21) issued August 31, 2005.

- Personnel System Lacks Controls to Ensure Reasonableness of NSF Salary Charges

The Foundation's personnel management system lacks controls to ensure the reasonableness of salary charges to federal grants. Specifically, the manual time keeping system does not have adequate checks to preclude duplicate salary payments and its payroll system lacks adequate support for all employee salary rates used for charging federal grants.

Foundation procedures require employees charging salaries to federal projects to manually prepare a time sheet reporting actual hours worked on a daily basis. However, the system requires employees to submit separate time sheets for each sponsored project on which they work instead of reporting all hours on a consolidated time sheet. As a result, the system does not comply with federal standards requiring reporting of all employee work activities on an "integrated basis" and lacks controls to ensure the accurate reporting of total hours worked. Such a non-integrated and manual time keeping system increases the risk that reporting errors will not be detected and result in erroneous salary charges to sponsored projects. This is particularly true given the Foundation's payroll system does not track the dates for each two-week timesheet used to pay employee salaries.

As a result, our limited transactions testing of \$16,429 of salary charges for three senior personnel on one ARRA grant³ disclosed that one of the Principal Investigators (PI) had received a \$1,200 duplicate salary payment for work completed during the same payroll period. Once the duplicate payment was identified, UAA made appropriate adjustments to credit the amount back to the subject grant. Even though officials stated that other mitigating controls existed to ensure the accuracy of payroll transactions, the salary overpayment was made when the PI mistakenly submitted a duplicate time sheet for hours worked on his NSF grant for the same two-week period. Because the dates for each two-week payroll period are not tracked for salary payments, identification of the duplicate salary payment is not possible.

Furthermore, contrary to federal regulations, our review disclosed that the Foundation's payroll system does not have adequate controls to ensure salary charges to sponsored projects are based on institutional base salaries. Specifically, the Foundation lacks supporting documentation to support the salary rates in its payroll system for all employees charging salaries to federal grants. Our review disclosed that the salary rates are based on an Employee Information Form submitted by each individual employee. While such a form is signed by the applicable College Dean, the Foundation does not have access to the employee's University appointment letter and/or employment contract to validate the accuracy of the salary rate. While our review of one faculty member disclosed that the individual had actually understated his salary rate on the Employee Information Form, internal control measures are, nevertheless, required to ensure employee salary rates in the Foundation's payroll system are valid.

Cognizant management officials acknowledged the control weaknesses in the Foundation's personnel management system. Officials stated that actions have been initiated to research electronic time keeping systems to remedy the deficiencies in the Foundation's manual

³ Transactions tested were limited to \$16,429 or 17 percent of the total NSF salary charges of \$96,936 as of December 31, 2009.

time keeping system. Such an electronic system should preclude the submission of duplicate timesheets that result in salary overpayments.

The control weakness in Fresno's payroll distribution and effort reporting system provides less assurance that salaries and wages charged to NSF grants are reliable and reasonably represent actual work performed. The systemic nature of the control weaknesses identified raise concerns about the reliability of the \$1.2 million of budgeted salary charges to NSF grants (20 percent of total) and the salary portion of the Foundation's other \$18 million of fiscal year 2009 federal sponsored expenditures.

Recommendation

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with the cognizant audit agency, as needed, to require Fresno to:

- 1.1 Establish a payroll distribution and labor effort reporting system that is fully compliant with federal requirements. At a minimum, the effort reporting system should (a) be incorporated into Fresno's official institutional records, (b) provide integrated reporting of all compensated employee activities, and (c) ensure wages charged to sponsored project are based on institutional base salaries.

Fresno Response: Fresno concurred with our finding and stated they are currently developing a labor effort reporting system that is fully compliant with federal requirements.

OIG Comments: Fresno's response met the intent of our recommendation.

Finding 2- NSF Cost Sharing Not Adequately Documented

Federal grant regulations⁴ require all cost sharing be verifiable from recipient records, necessary and reasonable for proper and efficient accomplishment of project or program objectives, and allowable under the applicable cost principles. Accordingly, both the University and the Foundation have jointly established cost sharing policies and procedures.⁵ These policies state that the Foundation is responsible for maintaining cost sharing records and documentation in sponsored project files. As such, internal procedures require the cognizant Foundation grant analyst to obtain cost share commitment and tracking reports from the PI on a quarterly basis along with all supporting documentation. Concomitantly, PIs are assigned the responsibility for certifying all cost share to a sponsored project is accurate and benefits the project and providing cost documentation to the Foundation grant analyst.

However, review of cost sharing on two NSF awards, of which one was ARRA funded, disclosed that the Foundation did not adequately track its cost sharing pursuant to established institutional policies and procedures. Specifically, the Foundation did not obtain the required quarterly cost share commitment and tracking reports and supporting documentation from PIs. While the required documentation was not in the Foundation's project files, there was correspondence evidencing that the grant analyst had informed cognizant project officials of the cost sharing requirements for both grants and the need to maintain appropriate documentation. However, at the time of review in February 2010, no cost sharing reports or documentation were available for the following cost shared expenditures even though some of the expenses had been incurred up to nine months earlier:

- From June to December 2009, the University had expended \$65,300 to fulfill its cost sharing commitment of \$750,002 on a six-year ARRA grant for \$1.5 million.
- As of May 2009, Fresno had fulfilled its entire \$45,000 cost sharing commitment on another NSF grant for \$311,414.

Due to the lack of cost sharing documentation in project files, the Foundation had similarly not complied with procedures for establishing cost sharing accounts in its project cost accounting system to track such costs at the time of our review.

As a result, the Foundation has not fulfilled its responsibility for proper financial administration of sponsored projects as required by federal regulations and NSF award terms and conditions. The lack of timely monitoring and tracking of required cost sharing on its research projects increases the risk that the Foundation would not be aware if obligations could not be met by the end of the award so that timely actions can be initiated to facilitate a timely resolution.

⁴ Section 23 of 2 CFR Part 215, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (formerly OMB Circular A-110).

⁵ Academic Policy Manual (APM) 502, Interim Policy on Cost Share/Match, was approved in February 2007.

Without an effective tracking and monitoring system, Fresno could jeopardize its federal research funding and be potentially liable if the required cost share is not provided.

This weakness occurred because Foundation management did not perform adequate oversight to ensure compliance with its cost sharing requirements. Concomitantly, the PIs did not fulfill their grant responsibilities by taking the initiative to comply with established institutional procedures requiring submission of quarterly cost sharing reports and supporting documentation to the cognizant grant analyst.

Recommendations

We recommend that the NSF Director of the Division of Institution and Award Support, coordinate with cognizant audit agency, as needed, to require Fresno to comply with established institutional cost sharing policies and procedures as follows:

- 2.1 Establish an oversight process to ensure cost sharing is timely tracked in its project costs accounting system and quarterly cost sharing reports and supporting documentation are timely obtained and maintained in project files. Such a process should hold PIs accountable for their assigned cost sharing responsibilities.

Fresno Response: Fresno concurred with our finding and stated that they are developing a review process to ensure timely reporting and tracking of cost sharing.

OIG Comments: Fresno's response met the intent of the recommendation.

Background, Objectives, Scope, and Methodology

Background:

California State University - Fresno (Fresno) is a public university founded in 1921 and is part of the 23 campus California State University system. Fresno has approximately 21,500 students and 1,100 full and part-time faculty members. In support of the University, the Fresno State Foundation (Foundation) is a non-profit auxiliary corporation that is the legal recipient of federal grants in behalf of the University. As such, the Foundation is responsible for the administrative and financial management of federal awards. Specifically, the Foundation's Office of Financial Services provides post-award administration and support services for sponsored research grants and contracts in accordance with the terms and conditions outlined in the awards.

As of December 31, 2010, Fresno had 10 NSF grants totaling \$5.3 million and cumulative expenditures of approximately \$781,283 million. Of the total NSF funding, (i) \$1.2 million or 20 percent was budgeted for salaries and wages and (ii) cost sharing commitments totaled \$750,002 or 13 percent. Also, four of the 10 grants, totaling \$3.4 million or 65 percent, were funded by the American Recovery and Reinvestment Act of 2009 (ARRA or Recovery Act).

Review Objectives:

The objective of our limited scope review was to evaluate whether Fresno had established an adequate system of internal control to provide reasonable assurance that NSF award funds were administered in accordance with federal grant regulations and NSF award terms and conditions.

Scope and Methodology:

This review was part of an on-going series of OIG evaluations being performed to provide oversight of the \$3 billion in NSF ARRA funding. Fresno was chosen for review because of the significant increase in total NSF funding provided by the Recovery Act funds. Our review included NSF grant charges as of December 31, 2009. The evaluation was limited in scope because only minimal transactions' testing was performed to assess whether the Foundation was complying with its established institutional policies and procedures for federal grants management. Transactions testing was focused on ARRA grants, but extended to other NSF grants as required, because Recovery Act expenditures were minimal at the time of our review. Specifically, our testing of effort reports was limited to \$16,429 or 17 percent of the total NSF wage costs of \$96,936 as of December 31, 2009. However, transactions testing was performed for all Fresno cost sharing commitments on NSF grants. Our review included the following steps:

- Reviewed criteria applicable to federal grants management, including Office of Management and Budget (OMB) and NSF guidance.
- Assessed whether Fresno policies, procedures, and processes for federal grants management were consistent with OMB and NSF requirements in the following areas: general grant management process, grant accounting system, time and effort reports, cost sharing, subawards and subrecipient monitoring, procurement, property and equipment, participant support, travel, indirect costs, consultants, quarterly financial reports, and annual and final project reports.
- Interviewed cognizant Fresno officials, including principal investigators and grant management staff, to gain an understanding of their role in the grant management process.
- Conducted analytical procedures and limited non-statistical sampling of NSF grant charges in major cost categories to assess the adequacy of supporting documentation and compliance with established Fresno grant management processes and related controls.
- Discussed fieldwork results with Fresno management officials.

The onsite Fresno review work was performed from February 16-19, 2010, with additional information obtained through December 2010. This review was performed as nonaudit services pursuant to paragraph 3.25a of the *Government Auditing Standards*. As such, the review was not conducted in full compliance with generally accepted government auditing standards, but was planned and performed to obtain sufficient appropriate evidence to provide a reasonable basis for the findings and conclusions contained in this memorandum report.

To obtain a copy of the Auditee Response to this report,

Please contact us at oig@nsf.gov or at (703) 292 7100.

In your request please specify the audit title and report number.