

**Howard University
Needs To Improve Internal Controls
Over Management of NSF Grant Funds**

**National Science Foundation
Office of Inspector General**

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EXECUTIVE SUMMARY

This report provides the results of the Office on Inspector General's (OIG) audit of the adequacy of Howard University's (Howard) system of internal controls to manage, account for, and monitor National Science Foundation (NSF) grant funds in accordance with Federal and NSF grant requirements. Specifically, we reviewed five grants with total NSF funding of \$10 million and required cost sharing commitments of \$9.9 million. This represented 53 percent of the total NSF funding of \$18.8 million for 35 active grants as of June 30, 2004.

Howard is a private university and its largest revenue source is the Federal Government. The University, located in Washington, D. C., was chartered by the U.S. Congress in 1867. Howard has grown to 12 schools and colleges, including a teaching hospital, and has almost 1600 faculty members and approximately 11,000 students. In fiscal year 2004, over \$235 million of Howard's operating budget of \$734 million was provided from a direct Federal Government appropriation. Additionally, the University received over \$179 million in direct and pass-through Federal awards, of which \$44.5 million was to support research and development (R&D) activities. Of the R&D funding, the Department of Health and Human Services was the largest contributor at \$28 million. NSF was the second largest sponsor and provided \$5.7 million in direct and pass-through grants.

Howard has undertaken various initiatives over recent years to enhance its Federal grants management enterprise. However, the University needs to do more to establish and maintain a system of sound internal controls to ensure NSF grant funds are being used for the purpose it is granted and is spent for allowable costs. We found that the University did not have comprehensive policies, procedures, techniques, and mechanisms to effectively manage, account for, and monitor NSF grant funds. As a result, for the five grants reviewed, with total funding of \$10 million, we found inadequate Howard internal controls over (a) \$12.3 million of cost sharing claimed on NSF awards, (b) \$2.9 million of NSF funds passed-through to subawardees, (c) faculty salary charges of \$176,000, and (d) stipend payments of \$109,000 made to trainees.

Specifically, we were unable to verify whether the \$12.3 million of Howard cost sharing claimed from 2000 to 2004 on the five grants audited benefited the intended NSF projects. The University did not separately track, and therefore, could not support \$6.9 million of Howard matching funds. Also, it did not have adequate documentation to support another \$5.4 million of claimed cost sharing provided by seven subawardee organizations. Cost sharing shortfalls could have had a detrimental effect on the NSF programs by limiting project scope and/or compromising the achievement of grant objectives.

Additionally, on the five grants, Howard had not adequately managed and monitored \$2.9 million, or 80 percent of total NSF funding passed-through to seven subrecipient organizations. We found that Howard (a) made processing errors involving incorrect amounts listed on subaward agreements totaling \$117,764, (b) did not establish legal

contractual requirements to secure \$5.4 million of subrecipient cost sharing and \$2.3 million of participant support/trainee costs, and (c) lost the opportunity to ensure the timely use of \$531,596 of subrecipient funding to achieve grant objectives. As a result, Howard could not ensure that NSF grant funds had been spent in compliance with NSF and Federal requirements and effectively utilized for authorized grant purposes.

Howard also needed to improve oversight of faculty salary costs claimed on NSF grants to ensure compliance with Federal cost principles and NSF requirements. Review of fiscal year 2004 faculty costs of \$176,548 on the five audited grants disclosed the lack of adequate documentation to support the faculty salary computations. Staff did not have employee contracts documenting their base salaries and the percentage of effort planned to be devoted to NSF grants was not clearly specified. In addition, Howard's labor effort reporting system did not generate accurate after-the-fact activity reports to support \$141,468 or 80 percent of the faculty salary costs.

Lastly, the University lacked sufficient documentation in its accounting records to support \$109,700 of stipends paid in FY 2004 to trainees from outside organizations. Howard did not have an organized system to track the purpose of the various stipends paid and receipts were not required for \$500 travel stipends paid to trainees, estimated to total as much as \$30,000 annually. As a result, there was a lack of sufficient documentation to support that the stipend payments were valid NSF grant costs.

Lack of written policies and procedures at Howard was the primary factor contributing to the control weaknesses. Howard had not defined key areas of authority and responsibility and had not established appropriate lines of reporting for the various University offices responsible for carrying out the Federal grants management enterprise. In the absence of such written procedures to guide Howard employees in their day-to-day operations, University staff, with Federal grant expertise, were not reviewing NSF grant charges to ensure compliance with Federal and NSF requirements. While Howard had issued some policies and procedures pertaining to some key aspects of Federal grants management over the years, an internal control process was not established for monitoring and/or evaluating administrative actions to ensure that established procedures were being implemented and effectively achieving sound Federal grants management objectives.

We recommended that Howard institute a program for monitoring and overseeing its NSF grant management processes. Most importantly, the University needed to establish comprehensive and current written policies and procedures for ensuring compliance with Federal and NSF grant requirements and to designate a high-level Howard official to be held accountable for such a program. Also, specific recommendations were made to improve Howard controls and accountability over NSF cost sharing obligations, subawards, faculty salary charges, and stipend payments to non-Howard trainees. Finally, we recommended that Howard have an independent evaluation performed to validate that timely and appropriate corrective actions are implemented to address all audit report recommendations. If such an evaluation discloses that Howard has not implemented actions to establish effective management control over NSF grant funds, we

recommended that NSF withhold additional funding until appropriate corrective actions are instituted.

A draft audit report requesting comments was issued to Howard University. In general, the University agreed with the audit findings and recommendations and appears to have initiated appropriate and responsive corrective actions in most instances to improve its internal control processes over NSF grant funds. Specifically, Howard states that it has issued new written policies and procedures for managing and administering its Federal grant programs; reorganized its grants management enterprise under a new cabinet-level Vice President for Research and Compliance with the full authority to enforce strict compliance with all Federal and NSF grant requirements; and hired a new Chief Financial Officer tasked with review and improvement of the University's internal control mechanisms. Also, as part of the reorganization of its Research Administration Enterprise, Howard indicated plans to establish a Research Compliance Office to provide oversight and direction for all compliance aspects of the University's Federal grants management process.

However, Howard needs to establish a formal process to ensure timely and appropriate implementation of corrective actions to address weaknesses noted in prior internal and external audit reports and/or other evaluations. Such a process is imperative to insure effective University implementation of audit recommendations contained in this audit report as well as future evaluations and audits. In this regard, Howard should develop such procedures as part of its current efforts to articulate the specific roles and responsibilities of the newly proposed Research Compliance Office. Of equal importance, NSF should closely monitor Howard's implementation of the audit recommendations to ensure that the University's new internal control processes result in the proper and effective management of NSF grant funds.

ACRONYMS

AY	Academic Year
A-133	U.S. Office of Management and Budget Circular A-133
A-21	U.S. Office of Management and Budget Circular A-21
COSO	Committee of Sponsoring Organizations
ERS	Effort Reporting System
FY	Fiscal Year
DGA	NSF's Division of Grants and Agreements
DIAS	NSF's Division of Institution and Award Support
OIA	Howard's Office of the Internal Auditor
OMB	U.S. Office of Management and Budget
ORA	Howard's Office of Research Administration
PI	Principal Investigator
PR	Howard's Personnel Recommendation Form
RFA	Howard's Office of Restricted Funds Accounting
R&D	Research and Development
STEM	Science, Technology, Engineering, and Mathematics

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INTRODUCTION

BACKGROUND

Howard University (Howard), located in Washington, D.C., is a private university chartered by the U.S. Congress in 1867. Howard has grown to 12 schools and colleges, including a teaching hospital. Over 1100 of the 1559 faculty members are in professorial positions and 87 percent of faculty have degrees from national research universities. In 2004, the student enrollment was nearly 11,000 and 2234 degrees were awarded at the undergraduate, graduate, and professional levels.

Howard's largest revenue source is the Federal Government. In Fiscal Year (FY) 2004, over \$235 million of Howard's operating budget of \$734 million was provided from a Federal appropriation administered through the U. S. Department of Education. Howard also received over \$179 million in direct and pass-through Federal awards; \$44.5 million of this amount supported research and development (R&D) activities. The Department of Health and Human Services is the largest Federal sponsor of Howard's R&D programs and provided \$28 million in FY 2004. NSF was the second largest R&D sponsor in FY 2004, providing over \$5.7 million via 35 direct awards and several subawards to Howard.

Howard's responsibilities for award administration are divided generally by pre-award and post-award functions. The Office of Research Administration (ORA) assists the Principal Investigators (PI) in the processing and submission of grant proposals to the sponsoring agencies, negotiates subaward agreements, ensures compliance with the sponsor's policies, is an administrative point-of-contact for the PI and the sponsor, and is a repository of grant records. ORA has a staff of three to four Research Administrators and is directly supervised by the Associate Vice Provost for Research.

The Office of Restricted Funds Accounting (RFA), within the Office of the Comptroller, is responsible for the financial administration, accounting, and reporting for all externally sponsored grants and contracts. The RFA grant accountants establish the award accounts, process the spending documents, and perform periodic financial reconciliation of the award accounts in the University's accounting system. About half of the nearly 20 grant accountants are assigned responsibility for specific awards. Other departments, including the Accounts Payable and Payroll offices in the Office of the Comptroller, also support Federal awards. The Comptroller reports to the Senior Vice-President and Chief Financial Officer-Treasurer.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to evaluate whether:

1. Howard's system of internal controls were adequate to properly manage, account for, and monitor its NSF award funds in accordance with Office of Management and Budget (OMB) and NSF grant requirements.

2. Howard costs charged on NSF grants are allowable, allocable, and reasonable in accordance with Federal cost principles and NSF award terms and conditions.

The five NSF grants selected for review had cumulative funding of \$10,007,752; representing 53 percent of total NSF funding of \$18,795,119 for the 35 active awards as of June 30, 2004. These five grants were selected based on their large monetary value and other high risk factors: including significant subaward funding and cost sharing requirements. Four of these five audited grants had required cost sharing commitments, which totaled \$9,912,947. For these grants, we reviewed the NSF award jackets and interviewed appropriate NSF program officials. These five awards were funded by NSF's Directorate for Education and Human Resources. Three were awarded to increase minority representation and graduation in science, technology, engineering, and mathematical fields (STEM); one award was to fund teacher training in STEM subjects; and the fifth award was to conduct summer institutes to increase cultural competence in evaluation techniques. The awards are anticipated to incur a total of \$12.7 million in costs upon their expiration: four awards expired in 2005 and one continues until 2008. The following chart contains information about the awards as of June 30, 2004:

Cumulative Award Amounts as of June 30, 2004

NSF Award	Grant Title	NSF Funding	Required Cost Sharing
HRD 09909040	Howard University Science, Engineering and Mathematics (HUSEM) Program	\$3,004,408	\$1,425,000
HRD 0000273	Washington Baltimore Hampton Roads Alliance for Minority Participation (WBHR-AMP)	\$4,000,000	\$7,952,496
ESI 0102295	Developing Teacher Leaders in Middle and High School Science	\$1,155,543	\$77,400
REC 0229308	Mathematics and Science Evaluation Training Institute for Mid-Level Experienced Evaluators	\$718,231	\$0
HRD 0302788	Howard/UTEP Alliance for Graduate Education and the Professoriate Project	\$1,129,570	\$458,051
Total		\$10,007,752	\$9,912,947

In evaluating the adequacy of Howard's internal controls over Federal grants management, we reviewed Howard's written administrative and financial policies and procedures to account for and safeguard NSF grant funds, including its cost sharing commitments. In addition, we interviewed appropriate Howard officials to gain an understanding of the actual management processes in place to administer and monitor NSF grant funds to evaluate compliance with Federal and NSF grant requirements.

For the 5 audited NSF grants, we verified that the expenditures in Howard's accounting records and financial reports supported the total grant expenditures of \$7,108,732 as of June 30, 2004 reported to NSF in its Federal Cash Transactions Report. For our detailed review of transactions, we selected costs from FY 2004 expenditures of \$2,844,994 incurred for the period from July 1, 2003 to June 30, 2004. During our survey work, we identified the largest categories of costs claimed on the 5 audited grants and evaluated Howard's internal control processes over these costs and performed limited transactions testing.

Based on the weaknesses identified during our survey, the audit verification phase was directed at a detailed evaluation of subaward costs, salary costs, and student stipends for non-Howard trainees. Based on the high risk of problems identified from our survey, our transactions testing included a review of 100 percent of FY 2004 subaward costs and faculty salary payments on the five audited grants. However, we judgmentally sampled professional and administrative salary payments and student stipends due to the large number of small payments in these cost categories. Our review of financial transactions was extended to other periods if a significant deficiency was noted. In total, the dollar value of transactions tested during our audit verification phase was \$1,343,936, which accounted for 47 percent of total FY 2004 costs claimed on the five audited NSF grants. Based on our judgmental sampling plan, questioned costs in this report may not represent total costs that may have been questioned had all expenditures been tested.

Furthermore, we reviewed Howard cost sharing commitments on the 5 audited NSF grants as of June 30, 2004. While the NSF grant agreements required \$9,912,947 of cost sharing from 2000 to 2004, Howard actually claimed costs of \$12,290,575. During our audit, we evaluated if the \$12,290,575 in claimed cost sharing was verifiable from the university's records and were claimed in compliance with Federal and NSF grant requirements. Of this amount, Howard subrecipients provided \$5,437,386 or 44 percent. As such, we performed limited on-site reviews at two Howard subawardees, Bowie State University and Virginia State University, to evaluate cost sharing procedures and available documentation to support the NSF cost sharing amounts claimed of \$1,000,000 and \$180,000, respectively.

We conducted our audit in accordance with the Comptroller General's *Government Audit Standards* and included such tests of accounting records and other auditing procedures, as we considered necessary, to fully address the audit objectives.

FINDINGS AND RECOMMENDATIONS

1. Howard Needs to Improve Internal Controls Over Federal Grant Costs

Contrary to OMB requirements, Howard has not established and maintained a system of internal control to provide reasonable assurance that \$18.8 million of NSF grant funds for 35 grants active as of June 30, 2004 was being used for the purpose it was granted or was spent for allowable costs. We found that Howard did not have comprehensive policies, procedures, techniques, and mechanisms to effectively manage, account for, and monitor NSF grant funds. This occurred because Howard efforts undertaken over the years to improve its grant management processes had not been carried out thoroughly and completely. As a result, for the 5 NSF grants audited, we could not determine whether Howard actually provided \$12.3 million of cost sharing claimed. Also, without adequate procedures to manage and oversee \$2.9 million of subawards, Howard did not have adequate subaward provisions flowing-down NSF grant requirements and continued to award additional annual funding when prior year monies had not been timely expended. Also, inadequate internal controls resulted in questioned Fiscal Year (FY) 2004 faculty salary costs of \$91,877 or 52 percent of the total faculty salaries claimed on the five audited awards. Because these shortcomings would affect other NSF and Federal grant funds, there was increased risk that the total \$44.5 million of Federal R&D funds received by Howard in FY 2004 was similarly not adequately managed.

Internal Control Requirements

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*,¹ 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*,² defines internal control 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.”

¹ 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 other assets Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and terms and conditions of the award.”

² Section 105 of OMB Circular A-133, provides a definition of internal controls and Part 6 of the Compliance Supplement addresses Internal Control.

In September 2004, the Committee of Sponsoring Organizations (COSO)³ reaffirmed that businesses and other entities should use the guidance provided in its *Internal Control – Integrated Framework* as the basis for establishing internal controls and providing the evaluation tools needed for assessing their control systems. Since its issuance in 1992, this *Framework* has long served as an industry standard to assess and enhance an organization’s internal control systems. Internal control is considered a major part of managing an organization and comprises the plans, methods, and procedures used to meet missions, goals, and objectives. In short, internal control helps the management of non-Federal entities to achieve desired results through effective stewardship of public resources. Internal control is not one event, but a series of actions and activities that occur throughout an entity’s operations on an ongoing basis. Management sets the objectives, puts the control mechanisms in place, and monitors and evaluates whether the control is operating as intended. People are what make internal control work, thus sufficiently trained personnel in an organization and clear job descriptions and responsibilities are critical elements of a successful internal control program.

Howard Needs to Improve its Organizational Structure and Establish Comprehensive Policies and Procedures

Contrary to OMB requirements, we found that Howard has not established effective internal control for managing its NSF grant funds. Howard does not have an effective organizational structure for administering grant funds and/or comprehensive and current policies and procedures to ensure grant funds are expended in accordance with Federal and NSF requirements.

Specifically, Howard did not have an effective organizational structure to oversee and manage NSF grant funds. The University lacked written procedures defining key areas of authority and responsibility and establishing appropriate lines of reporting for the various Howard offices responsible for carrying out Federal grants management. While Howard had issued policies and procedures pertaining to some key aspects of Federal grants management over the years, there was no established internal control process for monitoring and/or evaluation to ensure the procedures were being implemented and were effectively achieving sound Federal grant management objectives.

Consequently, we found that Howard personnel in RFA and ORA were not sure who had responsibility for reviewing claimed NSF grant costs and ensuring that those costs were reasonable, allocable, and allowable under Federal cost principles and the NSF award agreements. While the Comptroller believed that RFA had this overall responsibility,

³ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission is a private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. It was formed in 1985 to study fraud in financial reporting and to make recommendations to reduce its incidence. The COSO study took more than 3 years and included extensive research and discussions with corporate leaders, legislators and regulators, auditors, academics, outside directors, lawyers, and consultants. While its use is not mandated by Federal grant requirements, it is an industry standard and framework by which public, private, and non-profit organizations can implement effective internal control systems.

RFA management and staff themselves stated that it was not their assigned role. Consequently, RFA grant accountants did not perform such reviews because they stated that it was the responsibility of the Principal Investigator (PI) and/or their respective Departments. However, our discussions with these Howard officials disclosed that they were not familiar with the specific requirements of the Federal cost principles and accordingly, were not performing such reviews.

Similar problems were noted in discussions with ORA staff. For example, ORA staff informed us that it was RFA’s responsibility to review subrecipient OMB Circular A-133 audit reports and render a management decision on audit findings in order to determine Howard actions required to remediate any risk from such reported deficiencies. However, RFA staff stated it was not their assigned responsibility and did not perform such reviews. Thus, without formal written procedures clearly defining responsibilities, we found that no Howard office was reviewing subawardee A-133 audit report findings from August 2004 to March 2005.

Concomitantly, Howard has never issued complete and comprehensive written policies and procedures to define the internal control techniques and mechanisms to properly manage and monitor the expenditure of Federal grant funds. Our audit identified that in 1990, ORA issued an Interim Manual for Research and Other Sponsored Program “to be used pending publication of the official version.” An official version was never issued and according to ORA officials, the Interim Manual is outdated and an update was initiated in the summer of 2004. As of May 2005, officials stated that progress has been slow because it is difficult obtaining review and comments from all cognizant Howard officials.

Furthermore, Howard lacks an effective system to ensure that the problems in its grant management operations that were surfaced in audits and other reviews were promptly resolved. We found that Howard had not always taken actions to effectively correct the deficiencies identified during its annual OMB Circular A-133 audits. As a result, for the 5-year period from 2000 to 2004, three reports expressed a “qualified opinion” on Howard compliance on major Federal programs because of continued material weaknesses. Our analysis of these audits disclosed repeated Howard internal control weaknesses over the 5-year period as follows:

OMB Circular A-133 Audit Findings

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Qualified Opinion on Major Program Compliance		X	X		X
Subrecipient Monitoring	X	X	X	X	X
Time & Effort Reporting	X	X	X	X	X
Equipment Management	X	X	X	X	X
Inaccurate indirect and fringe rates	X	X	X	X	X

The repeated internal control findings in the above areas clearly indicate that Howard did not have an effective process for correcting the weaknesses identified. Similarly, we found that Howard management had not fully implemented promised corrective actions on recommendations pertaining to subaward management from an audit of a NSF grant performed by Howard's Office of Internal Auditor (OIA) in August 2003.⁴ Specific discussion of the OIA audit can be found in Finding 3 (page 26).

Consequences of Inadequate Internal Controls

As a result of the lack of adequate internal control processes, our review disclosed that NSF grant costs claimed (i) were not always reasonable, allocable, and allowable pursuant to the Federal cost principles and the NSF grant agreements and (ii) were not always most effectively used to accomplish grant objectives. Specifically, for the 5 NSF grants reviewed with total authorized funding of \$10 million, we could not verify whether Howard contributed the \$12.3 million of cost sharing it claimed. Additionally, we found that Howard did not effectively manage and oversee \$2.9 million of NSF-funded subawards and identified that 52 percent (\$91,877) of the FY 2004 faculty salary charges incurred on the 5 audited NSF grants were questioned costs. (These weaknesses are discussed in detail in subsequent audit findings.) Lack of controls over Federal grants management has also jeopardized other NSF funds to Howard, amounting to an additional \$8.8 million as of June 30, 2004, as well as future NSF awards. Similarly, all Federal agency R& D active grant expenditures, totaling \$44.5 million in fiscal year 2004, are at risk since the same Howard offices and personnel administer these awards.

Howard Needs a Compliance Program for Federal Assistance Grants

These weaknesses occurred because Howard efforts undertaken over the years to improve its grant management processes had not been carried out effectively. In particular, Howard lacks a system to monitor and assess the quality of its grant administration activities and processes over time. Howard does not have a compliance program and/or a specific high-level official accountable for overseeing Howard's compliance with applicable Federal and NSF grant regulations and program requirements. Without such oversight, Howard lacks a comprehensive and coordinated approach to administer and manage its Federal awards. Of particular significance, RFA and ORA, the two Howard offices possessing the greatest knowledge and technical expertise in Federal grant requirements, have not been designated clear and specific responsibility for ensuring grant funds are properly administered and managed.

While the implementation of a meaningful and effective compliance program for Federal grants may require a commitment of time and resources, the amount of Federal resources Howard is receiving suggests that such an investment is necessary. Particularly given the

⁴ *Final Report on Subrecipient Requests for Payment-ECSEL Cooperative Agreement, Internal Audit Report 2004-02* issued by the Howard Office of Internal Auditor to the Vice Provost for Research on August 14, 2003.

internal control weaknesses identified during our audit and Howard’s own annual OMB Circular A-133 audits. Howard needs to develop comprehensive written standards, procedures, and practices that will guide Howard’s employees in the conduct of day-to-day financial and grant administration operations. These policies and procedures should be developed under the direction of a high-level official, who is formally authorized and tasked with such compliance responsibilities. The official should continually monitor and evaluate the implementation, effectiveness, accuracy, and currency of Howard’s Federal grant administration processes.

Recommendations

We recommend that NSF’s Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA), coordinate with the cognizant audit agency,⁵ as needed, to implement the following recommendations:

- 1.1 Require Howard to establish a program for monitoring and overseeing its NSF grant management processes. At minimum, such a program should include:
 - a. Establishing comprehensive and current written policies and procedures for administering and monitoring NSF grant funds to ensure compliance with NSF and Federal grant requirements. Such procedures should:
 - 1) Clearly define the specific responsibilities for each university office associated with Federal grant activities, particularly the Office of Restricted Funds Accounting and the Office of Research Administration.
 - 2) Provide for a process to ensure implementation of timely and appropriate corrective actions to address deficiencies identified in audit reports and other evaluations.
 - b. Designating a high-level Howard official to be accountable for ensuring effective compliance with Federal and NSF grant requirements. Preferably, this official should have authority to report directly to the President and/or to Howard’s Governing Board.

Howard Comments

In its response to the draft report, Howard agrees that further actions are needed to establish internal controls over Federal grant costs and has identified specific actions to implement the audit recommendations. Specifically, Howard indicates that it has issued new written policies and procedures for managing and administering its sponsored research program, consolidated all grants

⁵ Department of Education is the cognizant audit agency pursuant to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Paragraph 400 (a)(7) states the cognizant audit agency shall “Coordinate a management decision for audit findings that affect the Federal programs of more than one agency.”

management functions under a new cabinet-level Vice President for Research and Compliance, established a Research Compliance Office, and appointed a new Chief Financial Officer tasked with review and improvement of the University's internal control mechanisms.

With regard to recommendation 1.1a, Howard issued a revised Manual for Research and Other Sponsored Programs (Manual) on February 20, 2006 to provide a reference guide for Howard faculty, staff, students, and researchers to be used in administering its Federal research grant program. The Manual defines the specific roles and responsibilities of the various new offices established by Howard's recent reorganization of its Research Administration Enterprise. Also, the University issued a new Internal Procedures Handbook to serve as a reference guide to Office of Sponsored Program staff in the preparation of pre-award and post-award grant documentation.

Specifically, Howard reports that it has reorganized its Research Administration Enterprise to provide for better management of and accountability over Federal grant funds. Accordingly, a new organization chart has been developed defining the goals and responsibilities of each office within the new organizational structure. A new, cabinet-level Vice President for Research and Compliance has been created as Howard's senior research officer, who has the full authority to establish strict internal controls for grant administration and compliance. Under the Vice President's cognizance, the University has consolidated all offices with grant management responsibilities under a new Office of Sponsored Programs. This office will be directed by the newly created Associate Vice President for Sponsored Programs, who will have overall responsibility for oversight and coordination of all day-to-day management functions for pre-award and post-award aspects of grants and contracts administration, including the current functions of the Office of Restricted Funds Accounting (RFA).

In addition, Howard has hired a new Chief Financial Officer (CFO) in October 2005, who has initiated a major assessment of all Howard accounting and finance operations for the purpose of reorganizing its functions. A primary focus of the CFO's assessment will be to define the responsibilities of RFA and its accountability for financial reporting of sponsored grants and contracts. The new accounting organization is planned to be in place by July 1, 2006.

In response to recommendation 1.1b, Howard is creating a Research Compliance Office to provide oversight and direction for all compliance aspects of the University's research enterprise. The office will report to the new Vice President for Research and Compliance, who has been granted full authority to enforce strict compliance with all NSF, Federal, and Howard policies. The Vice President will report directly to the President of the University.

Howard's President has briefed the chairs of the University's Audit and Legal Committee as well as the Academic Excellence Committee of the Board of

Trustees on the proposed full reorganization of the University's Research Administration Enterprise. The President stated that he plans to present the new organization to the Executive Committee of the Board and is confident that the full Board will grant expedited approval. Howard's response to the audit report in its entirety is included as Appendix D.

OIG Comments

Howard's actions appear appropriate and responsive to addressing most of the audit recommendations. The University is committed to strengthen its Federal grants management processes as indicated by the corrective actions delineated in its response. However, Howard's response did not identify any specific process to ensure timely and appropriate implementation of prior audit report recommendations, as delineated in recommendation 1.1a(2). Therefore, we reaffirm this audit recommendation and encourage Howard to focus on establishing such a process and clearly assigning responsibility to appropriate staff as part of its current effort to articulate the specific role and responsibilities of the new Research Compliance Office.

- 1.2 Require Howard to have an independent evaluation to validate that timely and appropriate corrective actions are implemented to address recommendation 1.1 and all recommendations in audit findings 2 through 5 of this report. Such an evaluation could be performed as part of Howard's annual OMB Circular A-133 audit.

Howard Response

Howard agrees with the recommendation and will ask its external auditors to review the progress of corrective actions implemented as part of its annual OMB Circular A-133 audit. Also, Howard stated that its Office of Internal Audit would provide a formal review of the University's implementation of the new systems established in response to the audit recommendations within 90 days of the final issuance of the audit report.

OIG Comments

Howard proposed actions appear appropriate. But the University needs to ensure that it formally modifies the contract with its external auditors to ensure the scope of work for its OMB Circular A-133 audit requires a specific evaluation of Howard's implementation of the OIG audit recommendations. Also, the University needs to ensure that the results of the Office of Internal Audit review are provided to NSF.

- 1.3 Withhold NSF grant funds if the independent evaluation in recommendation 1.2 discloses that Howard has not implemented timely and appropriate corrective actions to address the audit recommendations to ensure effective management controls over NSF awards.

Howard Response

Howard believes that it has developed a comprehensive action plan and timelines to ensure that the results of the independent evaluation will demonstrate timely and appropriate corrective actions to address all report recommendations.

OIG Comments

NSF needs to closely monitor Howard's progress in implementing its new internal control processes to ensure the proper, effective, and efficient management of NSF grant funds. As an integral part of this process, NSF needs to obtain and carefully evaluate the results of the both the planned Office of Internal Audit review and the OMB Circular A-133 evaluation of Howard's implementation of the audit report recommendations. It is NSF's responsibility to take appropriate actions, including coordinating, as necessary, with the cognizant audit agency to remediate any identified risk in Howard's management of NSF's grant funds.

2. Howard Needs a System to Identify, Account for, Monitor, and Report Cost Sharing

Contrary to OMB regulations, Howard lacked adequate internal controls for managing, accounting for, and reporting on its cost sharing obligations. Specifically, Howard did not track and therefore, could not support, \$6.9 million of cost sharing it claimed on four of the five audited NSF awards with matching requirements. In addition, Howard did not obtain adequate documentation from subrecipients to support another \$5.4 million of cost sharing and did not submit appropriate annual cost sharing certifications to NSF, as required by its grant agreements.

This occurred because Howard's accounting system did not have the capability to track cost-shared expenses contributed to NSF grants and Howard management did not place adequate priority on cost sharing compliance. As such, Howard did not follow its own cost sharing policy and inappropriately delegated sole responsibility for cost sharing management to the PI, instead of requiring its grants accountants to monitor the cost sharing claimed on NSF awards.

Without the ability to determine if Howard's claimed cost sharing was specifically incurred for the benefit of NSF grants, we were unable to determine whether the \$12.3 million of cost sharing it claimed on four of the five audited awards for 2000 to 2004 was allowable in accordance with Federal grant requirements. Furthermore, such systemic weaknesses in Howard's cost sharing controls increase the risk that Howard is not adequately accounting for its remaining cost sharing requirements of \$4 million on other active NSF awards or on future awards.

Inadequate Cost Sharing Accounting System

OMB Circular A-110 requires that grantees have financial management systems that provide "accurate, current and complete disclosure of financial results of each Federally-sponsored project..." and "effective control over and accountability for all funds..." Specifically, cost-shared amounts must be "verifiable from the recipient's records... necessary and reasonable for the proper and efficient accomplishment of project or program objectives...[and] allowable under the applicable cost principles..."

Accordingly, in July 1999, Howard's Office of the Comptroller issued Policy For Cost Sharing, which specifically requires "accurately recording and reporting of cost-sharing expenses." The policy states "All cost-shared expenditures of a sponsored project must be properly recorded and reported in the University's accounting system... [and] **be recorded in dedicated cost sharing accounts.**" Furthermore, the Cost Sharing policy delineates that employee "Effort, including cost shared amount, must be confirmed after the fact as part of the bi-annual certification process" in Howard's labor effort distribution system.

However, contrary to its Cost Sharing policy, the Howard accounting system did not identify and track cost-shared expenses incurred for each Federal award. Our review of

the \$6,853,189 in total cost sharing that Howard claimed on the five audited awards between 2000 and 2004 disclosed that RFA could not provide a detailed listing of cost-shared expenditures from its accounting system by each NSF grant. According to RFA officials, no unique cost sharing accounts were established to specifically link the claimed cost sharing to NSF awards. We found that the cost-shared expenses claimed were based on information accumulated outside the accounting system by Howard program officials. As such, Howard could not provide documentary evidence that the cost-shared expenses, reported in its manually prepared summaries, represented costs benefiting the NSF awards as opposed to other Howard or Federal programs.

In addition, our review disclosed the PIs did not have adequate documentation to support the \$6,853,189 of claimed NSF cost sharing reported in their manually prepared summaries of cost sharing for the 5-year period. Our detailed review of supporting documentation for the FY 2004 claimed cost sharing of \$1,653,129 disclosed that 81 percent or \$1,342,791 was for student scholarships/stipends, 10 percent or \$172,208 was for Howard faculty and professional salaries, and the remaining 9 percent was for materials, travel, and administrative costs. We found that the Howard process to document cost-shared scholarship expenditures was to manually select certain students from a roster of all Department scholarship recipients, generated from its Financial Aid System. However, for 2 of the 3 NSF awards reviewed, which had FY 2004 scholarship commitments of \$689,120 or 51 percent of the reviewed cost sharing, Howard program officials did not retain a copy of the original listing of selected scholarship recipients to support the claimed cost sharing. Without such documentation, it was not possible to determine if the reported student scholarship costs benefited the specific NSF awards.

The following example demonstrates the problems arising when manually generated documentation, developed outside of the Howard accounting system, is used to support NSF cost-shared expenditures. On NSF grant No. HRD 0302788, the PI's summary of NSF cost sharing claimed for FY 2004 totaled \$462,393, of which \$221,303 was provided for student scholarships from Howard financial aid Account No. 211307. However, the PI did not retain a copy of the listing of specific students used to support the \$221,303 in claimed cost sharing. In addition, our analysis disclosed that Howard Account No. 211307, with a total balance of \$471,654 in student financial aid, was also used to support cost sharing on four other Federal awards during the fiscal year. Consequently, without unique tracking to link the claimed cost sharing to the relevant NSF award, Howard cannot explicitly document that the \$221,303 in financial aid for the specific students identified as cost sharing for the NSF grant HRD 0303788 was not double counted as matching on any of Howard's other four Federal awards.

Further, we found that the FY 2004 Howard faculty and staff salary costs of \$172,208 or 10 percent of the total claimed as cost sharing, were PI estimates of the value of effort expended by Howard personnel working on the NSF grants rather than actual costs supported by personnel activity reports. Contrary to its own Cost Sharing policy, these salary costs were not supported by after-the-fact personnel activity reports from Howard's salary distribution system. Therefore, Howard could not support salaries claimed as NSF cost sharing.

Inadequate Support for Subrecipient Cost Sharing

Howard also could not demonstrate that the \$5,437,386 cost sharing it claimed on its subawards benefited NSF. OMB Circular A-110 states “Recipients are responsible for managing and monitoring each...subaward...” Contrary to these requirements, we found that Howard did not have adequate documentation to support the claimed subawardee cost sharing and the applicable Howard subaward agreements mistakenly did not include any provisions legally requiring the cost sharing or specifying the dollar amount of the cost sharing required.

Specifically, the letters Howard received from its six subrecipients supporting the \$5,437,386 in claimed cost sharing for NSF grant No. HRD-0000273 inappropriately reported a budgeted and/or committed dollar amount and not actual costs incurred by the institutions for the benefit of the NSF grant. For example, one of the subrecipient’s letters stated: “We are pleased to announce \$320,000 in scholarship monies each year to support Hampton University project students...” Similar letters of commitment were received from the other 5 subrecipients. However, without knowing how much the subawardees actually paid in student scholarships, Howard cannot ensure these scholarships were paid in the amounts claimed or specifically benefited NSF award objectives. In particular, five of the six subawardees’ letters for the first two years of the claimed cost sharing, totaling \$2,478,835 or 46 percent of the total cost sharing, could not have benefited the NSF award since the letters were for 1999 and 2000 scholarships and the subject NSF grant was not awarded until November 1, 2000.

Our review of the supporting documentation also disclosed that Howard did not have a review process to identify and correct additional deficiencies. The Principal Investigators inappropriately signed the commitment letters for 2 subawardees, even though the PIs did not have the authority to commit their institutions to cost sharing. Only the institutions’ Authorized Organizational Representatives had the authority to commit their universities to cost sharing obligations and to ensure such costs were committed only to the NSF subaward and not other externally-funded projects. Furthermore, we found that a Howard administrative staff person copied previous commitment letters from Bowie State University and Virginia State University and altered the dates to reflect new commitment letters for subsequent years from the organizations. Because the Howard review process did not identify these altered dates, there was an increased risk that these subawardees may not have provided their required cost sharing amounts. The following chart summarizes the noted deficiencies.

Problems With Subawardee Cost Sharing Documentation

Subawardee	Total Cost	Budgeted	Altered	Signed
	Sharing Claimed	Amount	Dates	By PI
University of the District of Columbia	\$1,112,568	X		
Morgan State University	\$1,488,959			X
Bowie State University	\$1,000,000	X	X	X
Norfolk State University	\$375,859	X		
Hampton University	\$1,280,000	X		
Virginia State University	\$180,000	X	X	
Total	\$5,437,386			

Because of the altered documentation, we performed onsite reviews at Bowie State University and Virginia State University, where claimed NSF cost sharing amounted to \$1,000,000 and \$180,000, respectively. While our review disclosed that the amounts in the altered letters were the same annual amounts claimed by the two universities, neither institution had written cost sharing procedures or tracked cost-shared expenses for the NSF subaward in their accounting systems. Therefore, they were not able to demonstrate that these same scholarship costs had not been double-counted as matching on other Federal grants.

Specifically, at Bowie State University, we found a high risk that the University did not have adequate cost sharing to meet all of its Federal cost sharing obligations. The PI had unilaterally and without authority signed the commitment letters for \$250,000 of annual University-funded scholarships to match NSF grant funds, without the knowledge and/or approval of any senior-level official at Bowie State University or its Office of Federal Research and Development. According to the PI, her Department also had scholarship cost sharing commitments of approximately \$100,000 annually under another Federal grant. Consequently, since there was no university-level knowledge and oversight of the University's total cost sharing commitments, there were no controls to preclude other Bowie State University PIs from committing these same scholarships to fulfill other Federal matching requirements. Thus, it is possible that total Bowie State University scholarship funding for 2003/2004 of \$418,549 for science, math, and technology students would not have been adequate to fulfill total Federal matching obligations, particularly given that \$250,000 or 60 percent had been committed to the NSF subaward.

Inadequate Annual Cost Sharing Certifications to NSF

NSF's grant agreement requires "...the amount of cost sharing must be documented (on an annual and final basis) and certified by the Authorized Organizational Representative..." for awards with total cost sharing commitments of \$500,000 or more. Contrary to this requirement, Howard did not submit the required annual 2004 cost sharing certification for 1 of the 3 grants reviewed, where such a certification was required. In addition, the Howard Authorized Organizational Representative did not certify the 2 cost sharing reports that were submitted to NSF. Instead, the certifications

were submitted by a working-level Research Administrator, who did not have the authority to legally bind Howard to carry through on such cost sharing commitments. In addition, this individual did not have sufficient knowledge or access to Howard's cost sharing documentation to ensure the integrity of the FY 2004 cost sharing amounts being certified to NSF of \$2,258,264 on two awards.

Implications of Inadequate Cost-Sharing Controls

The lack of adequate accounting controls over cost sharing at Howard and sufficient documentation of subrecipient cost sharing prevented us from determining whether the \$6,853,189 that Howard claimed and the additional \$5,437,386 that Howard subrecipients claimed as cost sharing on the four audited grants were allowable costs. Given that the deficiencies in controls over cost sharing were systemic in nature, we could not substantiate the validity and accuracy of any cost-sharing amounts claimed by Howard. Accordingly, we do not believe Howard has a reasonable basis to ensure that any of the \$12.3 million of claimed cost sharing on the NSF awards reviewed was allocable, allowable, and reasonable in accordance with Federal requirements. (See Appendix A) Further, to the extent that these weaknesses in accounting controls over cost sharing occurred university-wide, Howard may have inaccurately reported and claimed cost sharing amounts on its other 12 NSF grants over a 5-yr period, for which it promised to pay an additional \$4 million of cost sharing.

Inadequate accounting also resulted in inaccurate reporting of cost sharing and frequent revisions of its manually generated cost sharing reports. During our audit, Howard revised its cost sharing reports on 2 of the 4 audited grants. For example, on NSF grant No. HRD-0302788, Howard program officials changed the names of two graduate assistants originally reported, representing \$54,000 of FY 2004 cost sharing, when it realized that these students had not worked on the NSF sponsored project. Further, in the third year of NSF grant No. ESI-0102295, Howard revised the cost sharing reports for the first 2 years totaling \$53,250 because it had inappropriately claimed classroom rental costs, which are ineligible for cost sharing purposes because such costs are included in Howard's indirect cost recovery.

Additionally, because accounting control deficiencies may have allowed for counting cost sharing amounts more than once, NSF may have experienced cost sharing shortfalls on the 4 audited awards. Cost sharing was proposed to provide for approximately 51 percent of the total budget for these 4 NSF funded programs. Consequently, cost sharing shortfalls could have a serious detrimental effect on the programs funded by these awards. Unmet cost sharing can limit project scope and compromise the achievement of grant objectives.

Inadequate University Oversight

Howard management did not assign sufficient priority to cost sharing compliance. Also, RFA grant accountants, who had the required financial expertise and knowledge of Federal grant requirements, were not assigned responsibility to monitor Howard's cost

sharing commitments or to ensure compliance with Federal and NSF cost sharing requirements.

In particular, Howard did not have a monitoring process in place to assess and evaluate whether established University cost sharing procedures were being implemented. While Howard had issued a Policy For Cost Sharing in July 1999 requiring that “All cost-shared expenditures of a sponsored project must be properly recorded and reported in the University’s accounting system... [and] be recorded in dedicated cost sharing accounts,” these procedures were never implemented. We found no evidence that Howard initiated any actions to rectify the problem that its accounting system did not have the capability for tracking and linking its cost shared expenses to specific Federal grants.

Similarly, the lack of management oversight resulted in Howard not maintaining adequate documentation to support the \$12.3 million of claimed NSF cost sharing. Howard staff with Federal grants expertise was not tasked with this responsibility. Without specific assigned responsibilities, RFA management stated that it was not their role to review the cost sharing documentation maintained by the PIs, even though copies of such documentation were usually requested and placed in Howard’s official grant files at RFA. On the other hand, as researchers, the PIs were not knowledgeable of Federal grant requirements and/or the type of documentation needed to support Howard and/or subrecipient cost sharing. We believe that RFA review of the cost sharing documentation would have readily identified the problems noted during our review.

Recommendations

We recommend that the NSF’s Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA), coordinate with the cognizant audit agency, as needed, to implement the following recommendations:

- 2.1 Require Howard to establish:
 - a. An accounting system required by the University’s cost sharing policy, that links cost shared expenses to specific NSF awards.
 - b. Clear and specific responsibility for cost sharing compliance on NSF awards is assigned to Howard staff with Federal grant expertise.
 - c. A process to ensure the integrity of annual certifications of cost sharing are submitted to NSF.

Howard Response

Howard reported in its response to the draft report that it has developed a new system for managing, accounting for, and reporting its Federal cost sharing expenditures in July 1, 2005. Specifically, the University states that it has

implemented a new methodology in its current accounting system to separately track cost-shared expenditures in dedicated cost sharing accounts. Accordingly, Howard revised its cost sharing policies and procedures to specify responsibilities for the various offices required to support implementation of the newly established process.

The University stated that these specific cost sharing responsibilities have been clearly delineated in “staff position descriptions.” Specifically, the PIs are responsible for obtaining cost sharing documentation and providing these documents to the grants accountant. In turn, the grants accountant ensures the adequacy of the supporting documentation, records cost sharing transactions in the accounting system, and prepares the annual NSF cost sharing certifications for signature by the Authorized Institutional Representative. Howard also noted that cognizant University staff would be required to be fully trained in cost sharing principles and procedures.

Additionally, Howard states that it has started to record FY 2006 cost-shared salaries on certain NSF grants in new dedicated cost sharing accounts and will complete the implementation in the near future. Further, Howard stated that the Peoplesoft modules, a new enterprise software system scheduled for implementation in FY 2007, would similarly have the required Federal cost sharing functionalities.

OIG Comments

Howard’s actions appear appropriate and responsive to addressing the audit recommendations. With implementation of new dedicated accounts in its financial management system to separately track cost sharing and assignment of new responsibilities to grants accountant for monitoring such costs, it is imperative that Howard ensures that such new procedures are fully understood by cognizant staff and are being effectively implemented. Also, we would like to note that Howard’s new procedures primarily focus on the proper recording of cost-shared salaries. It is equally important for the University to ensure that other cost-shared expenses are properly recorded as well. Specifically, our analysis of FY 2004 NSF cost sharing claimed by Howard disclosed that 81 percent was for student scholarship/stipends.

3. Subaward Management and Monitoring Need Improvement

Howard needs to improve its management and oversight of NSF grant funds passed-through to subrecipient organizations. For the five audited awards, Howard had passed-through \$2.9 million (29 percent) to seven subrecipients for 2000 to 2004. However, contrary to Federal and NSF regulations, Howard did not have accurate and comprehensive subaward agreements for assessing subrecipient performance and did not implement an effective subaward monitoring program to ensure subrecipient compliance with Federal and NSF grant requirements.

Because of these control weaknesses, Howard (a) made processing errors involving incorrect amounts listed on subaward agreements totaling \$117,764 or 4 percent of the funding on the 7 subawards, (b) did not establish legal contractual requirements to secure \$5.4 million of subrecipient cost sharing and \$2.3 million of participant support/trainee costs, and (c) lost the opportunity to ensure the timely use of \$531,596 of subrecipient funding to achieve grant objectives. As a result, Howard cannot ensure that NSF grant funds have been spent in compliance with NSF and Federal requirements and were effectively utilized for authorized grant purposes.

This occurred because Howard lacked the organizational structure and processes to properly oversee and monitor the financial and administrative performance of its subawards. Specifically, Howard did not have comprehensive, written internal control standards, procedures, and practices to guide its employees in day-to-day operations for managing subawards. As such, the roles and responsibilities of the various Howard offices were not clearly defined to ensure the effective assignment of subaward oversight responsibilities. Also, sufficient priority was not given to correcting subaward management and monitoring issues identified in recent OMB Circular A-133 and Howard internal audit reports.

Need For Accurate and Timely Subaward Agreements

NSF grantees have a stewardship responsibility, when receiving Federal grant funds, to exercise prudent oversight and to ensure those public monies are spent for authorized grant purposes. When grant funds are passed-through or transferred to a subrecipient, OMB and NSF grant requirements specify that the primary grantee, or in this case Howard, is responsible for the programmatic and administrative performance of its subawardees.⁶ As such, Howard should establish accurate and timely subaward agreements that contractually obligate the subrecipient to the grant requirements imposed by NSF grant agreements.

Contrary to OMB and NSF requirements, Howard did not establish the foundation for an effective subrecipient monitoring program by developing well-written and comprehensive subaward agreements. Because the subaward agreements form the

⁶ Section 51 (a) of OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-profit Organizations, and Chapter III of NSF Grants Policy Manual sets forth grant monitoring requirements.

baseline for assessing subrecipients' performance and compliance, it was essential for Howard to provide its subrecipients with clear and comprehensive award terms and conditions in a timely manner. However, in all 7 subawards covered by the audit, we found administrative errors in 35 percent of the subaward agreements and amendments. Also, Howard allowed subawardees to begin work an average of 5.3 months before formal agreements were signed and did not "flow-down" NSF requirements for cost sharing and participant support costs.

Significant Errors and Delays in Subaward Agreements

From 2000 to 2004, Howard issued 7 subawards under two NSF grants, HRD 0000273 and HRD 0302788, totaling \$2,889,093 or 73 percent of the total authorized NSF funding. At Howard, the PI is responsible for requesting that ORA establish subaward agreements under Federal grant programs and initiating actions for annual amendments to provide additional incremental funding. When these requests are received, RFA encumbers the grant funds in the Howard accounting system and ORA develops and processes the appropriate subaward agreements and/or amendments with the recipient organizations. ORA uses a template, which includes the standard Howard terms and conditions for subawards.

Our review of the subrecipient agreements and amendments, associated with the seven NSF-funded subawards, disclosed that ORA made administrative errors in executing these contractual actions. Of the 40 subaward agreements and amendments Howard processed from 2000 to 2004 on the seven audited NSF subawards, ORA made errors in 14 cases (35%) by incorrectly specifying one or more of the following award terms: the dollar amount of the annual funding increment, the cumulative authorized funding amount, the period of performance, and/or the amount of encumbered funds. In addition, ORA did not process these actions in a timely manner. The following table lists, by applicable award, the subawards issued and the administrative errors associated with each:

Errors and Delays In Processing Subaward Agreements and Amendments

Subawardee Name	Difference Bet. Encumbered & Contract Amts				Transactions		Amounts	Months for	Months Bet.
	Funds	Cum Funds	Difference		Total	Incorrect	Associated	ORA to	Signed and
	Encumbered	Per Agreement	Contract	Contract	#	#	With	Process	Effective Date
			More	Less			Errors		
(NSF Grant)									
(000273)									
Bowie	\$293,798	\$328,622	\$34,824		9	5	\$184,223	4	6
Hampton	\$711,592	\$711,592			6	1	\$357,062	2.8	3.6
Morgan	\$832,792	\$832,792			7	1		3.5	4.9
Norfolk	\$384,692	\$383,692		\$1,000	6	3		4.4	3.8
UDC	\$388,692	\$306,752		\$81,940	6	2	\$107,588	3.6	4.9
Va State	\$237,798	\$237,798			5	2		3.8	6.3
Subtotal	\$2,849,351	\$2,801,235			39	14			
(NSF Grant)									
(0302788)									
UTEP		\$87,845			1				7.5
Grant Total	\$2,849,364	\$2,889,093	\$34,824	\$82,940	40	14	\$648,873	3.7	5.3

- Processing errors:** Errors in amendments to 3 subawards resulted in Howard identifying the wrong dollar amounts in the subaward agreements and/or the award amounts not agreeing with amounts encumbered in Howard’s accounting system. Specifically, the subaward agreement for Bowie State University was \$34,824 more than total encumbered funds. Conversely, the subaward amounts for the University of the District of Columbia and Norfolk State University subawards were less than total encumbered funds by \$81,940 and \$1,000, respectively. Furthermore, Howard mistakenly issued duplicate amendments for \$648,873 due to ineffective procedures to track and process subaward amendments.
- Work began before agreements formalized:** All 7 subawardees were allowed to begin work on average 5.3 months before formal agreements and/or amendments were signed. Of this time, ORA took an average of 3.7 months to process and execute the subaward agreements and amendments. By not finalizing these contractual documents before work begins, Howard risks misunderstanding with the subawardee on the terms and conditions for how and on what the subaward funds can be expended.

Subaward Agreements Do Not Flow-Down Required NSF Provisions

In addition to processing errors, and contrary to OMB and NSF requirements, Howard did not advise subrecipients of the specific requirements of the NSF grant agreements. Howard subaward agreements did not flow-down required Federal and NSF grant provisions for participant support/trainee costs and cost sharing (as mentioned in Finding 2). Specifically, the NSF Grant General Conditions require that “Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior written approval of the cognizant NSF Program Officer.” While the Howard subaward budgets included significant funding for participant support costs, its subaward agreements mistakenly did not flow-down the subject NSF requirement restricting the use of such funds. Specifically, for the 7 subawards reviewed, Howard proposed budgets allocated 80 percent of total subaward funds to participant support costs. Thus, for the \$2,889,093 of total subaward funding, \$2,311,264 was restricted to participant support costs for students. However, Howard subaward agreements mistakenly did not include a provision restricting the spending of those funds to participant support and therefore, subawardees were not obligated legally to limit spending of those funds to participant support as required by the NSF grant agreements.

Similarly, Howard subaward agreements did not include a cost sharing provision requiring the subawardee to provide such matching funds or specify the OMB cost sharing documentation and reporting requirements. As previously discussed in Finding 2, Howard subrecipient cost sharing claimed from 2000 to 2004 totaled over \$5.4 million for the subawards reviewed. Without a specific Howard subaward provision and/or budget delineating the dollar amount of the cost sharing obligation, there was not a legal requirement for these subawardees to provide any of these NSF-required cost sharing commitments.

Need to Actively Monitor Subawards

OMB also provides guidance on subaward monitoring responsibilities for primary grantees.⁷ Specifically, primary grantees should (1) monitor the subrecipient’s use of Federal funds to provide reasonable assurance that subrecipients administer Federal awards in compliance with laws, regulations, and the provisions of award agreements and that performance goals are achieved and (2) ensure that subrecipients have met audit requirements. The OMB guidance describes and suggests various risk factors that may affect the nature, timing, and extent of subrecipient monitoring performed by the primary grantee. Such risk factors include:

⁷ Subpart D, Section 400 of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and Part 3, Section M of the A-133 Compliance Supplement establish OMB guidelines for a primary grantee’s monitoring responsibilities for its subawards.

- *Program complexity* - programs with complex compliance requirements have a higher risk of non-compliance;
- *Percentage of awards passed through* - the larger the percentage of program awards passed through the greater the need for subrecipient monitoring;
- *Amount of awards* - larger dollar awards are of greater risk;
- Primary grantee's past experience with monitoring a particular subrecipient;
- Subrecipient's past experience with Federal awards; and,
- Type of findings and corrective actions identified in a subrecipient's OMB Circular A-133 audits.⁸

The extent of monitoring is left to the judgment of the primary grantee depending on the primary grantee's assessment of the subrecipient as a higher risk or lower risk organization. The primary grantee should monitor the subrecipient activities throughout the year and such monitoring can take various forms, such as:

- *Reporting* - reviewing financial and performance reports submitted by the subrecipient;
- *Site Visits* - performing site visits at the subrecipient to review financial and programmatic records and observe operations;
- *Regular Contact* - regular contacts with subrecipients and appropriate inquiries concerning program activities; and
- *A-133 Audit Reports* - reviewing findings and corrective actions identified in a subrecipient's annual A-133 audit reports.

However, Howard did not have a process to evaluate its subrecipients as being a higher or lower risk organization in order to determine the appropriate degree and type of monitoring. Instead, Howard's monitoring system, for the most part, consisted of ORA obtaining A-133 audit reports and PIs conducting site visits to monitor programmatic, but not financial performance. Contrary to the OMB guidance, Howard did not require subrecipients to provide financial or programmatic status reports even though the seven subrecipients received \$2.9 million in NSF funds and were required to provide another \$5.4 million in cost sharing. Additionally, Howard did not effectively track subrecipient A-133 audit reports and did not document its oversight over subrecipient corrective actions on audit findings. As a result, Howard did not have an effective subaward monitoring program to meet OMB control objectives to provide reasonable assurance that its subrecipients administered NSF grant funds in compliance with laws, regulations, and the provisions of grant agreements.

⁸ Subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year are to have an audit within 9 months of the end of the subrecipient's fiscal year.

Lack of Monitoring of Financial Activity and Cost Sharing Documentation

One of the crucial tools required to monitor subrecipient grant activities is the review of progress reports. However, Howard's subaward agreements did not establish clear requirements for periodic progress reports to ensure prudent oversight of NSF grant funds. For example, for 6 of the 7 subawards reviewed, the only reference to a reporting requirement was in the attached scope of work for the subawards, which stated: "Financial and periodic performance reports will be submitted in accordance with the schedule set by the Alliance Project Director." However, while the PI obtained programmatic performance information from the 6 subawardees through periodic site visits and information reported in a statistical database, he did not require or receive annual written progress reports concerning financial activity. The grant agreement for the seventh subaward required progress reports as described by the NSF grant, but Howard did not receive such a report.

Further, while the two PIs had regular contact with the subawardees concerning program activities, the PI for NSF grant No. HRD 0000273 did not use Howard's Financial Reporting System to monitor the subrecipients' grant expenditures. On two of the six subawards for HRD 0000273, the Howard Financial Reporting System showed that expenditures were not timely; increasing the risk that the two organizations may not be achieving grant objectives. As of the end of FY 2004, 3 ½ years after the effective subaward dates, total Howard payments for these two subawards were only \$100,480 or 19 percent of total authorized funding of \$531,596. Additionally, as previously discussed, Howard did not evaluate the subrecipient cost sharing documentation to ensure that cost sharing amounts of \$1,180,000 on these two subawards were documented appropriately to support Howard's certifications to NSF regarding claimed cost sharing (discussed in Finding 2).

Lack of Monitoring of Subrecipient A-133 Audit Reports and Findings

OMB Circular A-133 requires primary grantees to ensure that its subrecipients have met their audit requirements and to issue a management decision on A-133 audit findings within 6 months after receipt of audit reports to ensure that the subrecipients take appropriate and timely corrective action. However, Howard does not have an established system to document receipt and assessment of subrecipient A-133 audit reports. Although this has been a continuous internal control weakness noted in Howard's own A-133 audit report since at least fiscal year 2000, effective corrective actions have not been implemented. (See Finding No. 1, page 6)

While ORA has established new procedures and undertaken various initiatives over the years to improve its internal controls over tracking receipt and assessment of subrecipient A-133 audit reports, Howard staff have not always followed these procedures or continued with the initiatives. For example, in 2003, ORA established a tracking mechanism through the use of a spreadsheet with certain data elements to facilitate monitoring of the subrecipient A-133 audit reports. However, the use of this tracking mechanism was not continued when the ORA individual responsible for maintaining this

spreadsheet departed in 2004. Thus, in our April 2005 discussions with ORA, officials were not able to document that there was a systematic mechanism used for tracking the receipt and assessment of the subrecipient A-133 audit reports.

Although Howard had documentation reporting the results of the most recent A-133 audit for six of the seven subawards, Howard did not have documentation reporting the results of the most recent A-133 audit for Virginia State University. The last audit reported was for fiscal year 1999 and the Howard documentation for the subsequent years reported that the Virginia State audit was underway, but we could find no evidence that ORA staff ever followed-up to ascertain the status of those subsequent A-133 audits.

Furthermore, our discussions revealed that from August 2004 to March 2005, no Howard management decisions were made on subrecipient A-133 audit findings because there was a disagreement concerning whether ORA or RFA had this responsibility. The Associate Provost for Research, who is the manager of ORA, told us that he has assumed this responsibility and has reviewed the audits for the small number of subawardees that reported findings. However, he did not document his oversight efforts as required by the OMB guidance.

Consequences of Inadequate Subaward Oversight

Without an effective Howard subaward management and oversight program, NSF cannot ensure that \$2.9 million of subaward funds were managed prudently to achieve grant objectives or expended in accordance with NSF and Federal grant requirements. The grants management weaknesses identified resulted in:

- Lack of Howard legal recourse in the event that subawardees do not meet their \$5.4 million cost sharing commitments or properly restrict spending of \$2.3 million in participant support/trainee costs due to the absence of required NSF flow-down requirements.
- Loss of Howard's opportunity to ensure that \$531,596 of funding for two subawardees was timely used to most effectively achieve grant objectives due to the lack of financial progress monitoring.

Howard Needs to Develop a Control Framework for Subaward Oversight

These weaknesses occurred because Howard lacked organizational structures and processes to properly oversee the administration and monitoring of subawards and Howard management had not given sufficient priority to addressing subaward management weaknesses identified in prior audit reports. Specifically, there are no comprehensive written internal control procedures establishing a formal documented process for subaward management. As such, it was not clear who was responsible and what procedures were to be used to monitor subawards to ensure adequate financial and programmatic accountability. Equally important, there were no Howard procedures for where and how subaward documentation was to be maintained.

Consequently, due to the absence of clearly defined and assigned roles and responsibilities, we found that no Howard staff was performing risk assessment of subrecipients and deciding the type, nature, and extent of monitoring required to ensure adequate financial and administrative accountability. Neither ORA nor RFA grants staff, with the required Federal grant expertise, believed it was their responsibility to perform such functions.

Equally important, we concluded that the significant number of administrative errors found in processing subaward actions was caused primarily by the lack of an established Howard system for filing and maintaining subaward documentation. ORA subaward files were scanned and maintained electronically, but were not organized systematically, making it very difficult to locate copies of subaward agreements and amendments. Without readily available copies of prior amendments, ORA officials could not determine the proper subaward terms and conditions, thus resulting in the many administrative errors made when processing amendments for annual incremental funding. In addition, ORA did not have an organized system for ensuring that copies of the executed subaward amendments were sent to the appropriate Howard offices and/or to the subawardees. As a result, the official Howard grant file, maintained by RFA, did not contain copies of all subaward amendments. Similarly, we were unable to locate these missing amendments in the PI and/or the Accounts Payable files.

Howard Does Not Implement Audit Recommendations Effectively

Howard had not resolved the subaward management weaknesses identified in prior audit reports. In addition to the weakness in oversight of subrecipient A-133 audits, Howard's Office of Internal Auditor (OIA) issued a report on August 14, 2003, pertaining to subaward payments under an NSF grant for \$14.5 million.⁹ Similar to the weaknesses identified during our review, the OIA concluded that Howard did not have documentation evidencing subrecipient monitoring and did not have grant files containing complete copies of Howard's agreements with NSF and its subrecipients. Pursuant to the audit recommendations, among other corrective actions, the Vice Provost of Research agreed to:

- Develop a checklist of documentation to be maintained in official grant files to support fiscal transactions for research grants. The Associate Vice Provost for Research, who is the manager of ORA, was to periodically review the grant files to ensure such documentation was maintained. However, as of April 2005, almost 2 years after the audit, such a checklist has not been completed to the satisfaction of OIA.

⁹ *Final Report on Subrecipient Requests for Payment-ECSEL Cooperative Agreement, Internal Audit Report 2004-02* issued by the Howard Office of Internal Auditor to the Vice Provost for Research on August 14, 2003.

- Include evidence in the official grant files to document that Research Administrators were evaluating subrecipient invoices to demonstrate appropriate monitoring of subawards. Based on June 2004 audit follow-up efforts, OIA was informed that RFA, instead of ORA Research Administrators, took authority for ensuring that grant files include such evidence of evaluation of subrecipient invoices. However, our discussions with RFA management disclosed that they were not aware of this change in responsibility and, neither ORA nor RFA staff reviewed the invoices.

Conclusion

Howard has not exercised adequate stewardship of NSF grant funds passed-through to subrecipient institutions. It lacked the organizational structures and processes to properly oversee the administration and monitoring of subawards and management has not given sufficient priority to addressing subaward management weaknesses identified in prior audit reports. As such, Howard does not have reasonable assurance that public monies were spent properly and accounted for systematically and could not demonstrate that limited NSF research funding was judiciously managed to deliver the maximum level of program benefits.

Recommendations

We recommend that NSF's Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA), coordinate with the cognizant audit agency, as needed, to implement the following recommendations:

- 3.1 Require Howard to establish subaward management procedures for NSF grants to:
 - a. Clearly identify and assign to Departments/PIs, ORA, and RFA their respective responsibilities for all aspects of subaward management and monitoring including the issuance of timely and accurate subaward agreements and amendments; assessment of subrecipient risk of noncompliance with NSF and Federal grant requirements; and the development of specific subrecipient monitoring plans based on such risk assessments.
 - b. Modify standard Howard subaward terms and conditions to require (1) periodic financial progress reports, (2) clear identification of the dollar amount of required cost sharing, (3) documentation and reporting of required and actual cost sharing amounts, and (4) budgetary restrictions on participant support/trainee costs.
 - c. Establish a formal process and assign clear Howard responsibility to ensure appropriate corrective actions are implemented to address prior Howard OIA and A-133 audit findings and recommendations pertaining to subaward management.

Howard Response

Howard agrees that subaward management and monitoring needed improvement in the period from 2000 to 2004. Pursuant to the audit recommendations, the University states that it has developed subrecipient management and monitoring procedures and incorporated the new procedures in its newly issued Manual for Research and Other Sponsored Programs. The new procedures will require the flow-down of appropriate provisions from the sponsoring agency's award agreement and delineate specific subaward monitoring activities and responsibilities.

Further, Howard has modified its subaward template to directly address the subaward issues raised in the audit finding. The University states that the new subaward terms and conditions will provide Howard with the appropriate foundation for assessment of subrecipient performance. These new subaward provisions require: (1) periodic progress reports; (2) identification of the dollar amount of cost sharing requirements, (3) reporting of cost sharing on periodic subaward invoices, (4) documentation requirements for cost shared expenditures, (5) compliance with approved subaward budgets, and (6) Howard approval for any reallocation of budgeted subaward funds.

In addition, on February 28, 2005, the ORA issued A Policy for the Collection and Maintenance of, and Action Upon Relevant A-133 Reports, to establish a Howard process to request, ensure receipt, and review subrecipient A-133 audit reports. This policy was modified and jointly adopted by both ORA and RFA on February 3, 2006 and among other procedures, requires RFA to review subrecipients' A-133 audit findings, determine actions required, and inform ORA of the specific actions taken.

OIG Comments

Howard's actions appear appropriate and generally responsive to addressing most of the audit recommendations. The issuance of new subaward management and monitoring procedures and the consolidation of all grant management activities into the new Office of Sponsored Programs should improve management and oversight of Federal grant funds passed-through to subrecipient organizations. Nevertheless, since the lack of adequate monitoring of subrecipient A-133 audit reports has been a repeat audit finding reported in Howard's own annual A-133 audit reports since at least FY 2000, we believe that further University actions are needed to address certain aspects of recommendations 3.1.a. and 3.1.c.

Specifically, with regard to recommendation 3.1.a., Howard needs to ensure effective implementation of its new subaward monitoring process by focusing on developing methods for assessing the risk of subrecipient noncompliance in order to properly establish subawardee monitoring plans. The University's assessment of an organization as a higher or lower risk subawardee is the key factor in

determining the extent of Howard monitoring required of pass-through NSF grant funds. As part of this subrecipient risk assessment, Howard should review the organization's A-133 audit reports to identify any audit issues that require ORA to include special award conditions in the University's subaward agreement to mitigate any risk to pass-through NSF funding.

Lastly, with respect to recommendation 3.1c., Howard's new process to ensure subrecipient A-133 compliance, delineated in A Policy for the Collection and Maintenance of, and Action Upon Relevant A-133 Reports, needs to be officially incorporated in the University's Manual for Research and Other Sponsored Programs. Procedures are only effective when integrated into day-to-day staff responsibilities and placed in a location where cognizant employees can easily find and reference them. During our audit, both ORA and RFA working-level staff were not aware of these procedures even though ORA management stated that the process had been implemented six months prior.

4. Support for Faculty Salary Costs Needs to be Improved

Howard needs to improve oversight of faculty salary charges to NSF grants to ensure the costs are in compliance with Federal cost principles. While Howard was largely able to provide documentary evidence supporting \$242,141 of FY 2004 non-faculty salaries charged to the five audited grants, it did not have adequate support for \$176,548 in faculty salaries. Our review of the faculty salaries disclosed (i) a lack of accurate after-the-fact activity reports to support \$141,468 (80 percent) of faculty salary charges and (ii) an absence of documentation to support the faculty salary computations. Further, we questioned \$91,877 or 52 percent of the \$176,568 of Howard faculty salaries claimed in FY 2004 because the expenditures were in excess of the faculty member's base salary, were duplicate payments, exceeded NSF's two-ninths limitation for summer salaries, or did not have adequate supporting documentation for the salary amount claimed.

This occurred because Howard did not have an effective process for ensuring faculty salary charges on NSF grants complied with Federal cost principles and did not provide for an independent internal review to ensure the accuracy of its effort reporting system. This systemic weakness also raises questions as to the reliability and integrity of Howard's management of senior staff costs of \$588,064 budgeted in all NSF grant funds obligated during FY 2005. Such improper charges result in diverting limited NSF research funds that could be used for other awards, thereby preventing NSF from distributing funds to those projects most in need of support.

Howard's Online Labor Effort Reporting System

Since 2002, Howard has used an online Effort Reporting System (ERS) to generate after-the-fact activity reports. These activity reports confirm the predetermined allocations of labor effort charged to each sponsored award and all other Howard activities by faculty and professional staff members. A User Manual was issued in January 2002 delineating the policies and procedures for the ERS. The after-the-fact activity reports, prepared three times a year for the academic fall, academic spring, and summer terms, reflect the percentage of time each faculty member devoted to each sponsored project and Howard teaching, research, and administrative responsibilities. In turn, Howard uses these percentages to confirm the actual salary costs to be charged by each faculty member to the different funding sources in the reported term.

For Federal awards, Howard initiates such salary distribution by submitting a Personnel Recommendation Form (PR) for the faculty and staff member when he/she is first assigned to work on a particular award. Once approved, RFA encumbers the funds in the accounting system and the Payroll Department enters the predetermined compensation amount to be charged to the award activity in Howard's payroll system. For each reporting period, the faculty and staff members are required to certify that the labor effort distribution percentage in the after-the-fact activity report reflects a reasonable estimate of the actual effort expended during the reporting period. Howard ERS procedures also require faculty and staff to report cost shared effort when they certify their activity reports and make salary distribution adjustments if there are significant changes in the

reported effort percentage allocations or there are changes in funding sources. In addition, the Howard procedures require an annual internal review of the ERS system to ensure it is operating in conformance with its own procedures as well as the Federal cost principles.

Federal Requirements for Allowable Faculty Salary Costs

OMB Circular A-21, *Cost Principles for Educational Institutions*, section J.10 provides criteria for determining allowable compensation for personal services under Federal assistance grants. These cost principles set forth acceptable methods for documenting a researcher's salary distribution based on time and effort attributable to particular Federally funded research projects. Institutions are required to establish a system for distribution of payroll costs to benefiting awards and must maintain after-the-fact-activity reports that "allow for confirmation of activity allocable to each sponsored agreement... [that] reasonably reflect the activities for which the employees are compensated..."

Further, the Circular specifies that faculty salary charges for work performed on Federal grants is allowed based on the "faculty member's regular compensation" and "should not exceed the proportionate share of the **base salary** for that period." Only in unusual cases do the Federal cost principles allow for faculty salary charges for work beyond the normal academic responsibilities, which would represent extra compensation. Specifically, grant funds should not be used to increase the **base salary** of faculty members unless such extra compensation is "specifically provided for in the agreement or approved in writing by the sponsoring agency."

However, we found Howard lacks adequate oversight of faculty salary charges to NSF grants to ensure such costs are in compliance with Federal cost principles. Specifically, our audit disclosed that (i) after-the fact-activity reports did not accurately report effort in the period of performance to support the actual salary costs charged to NSF awards, (ii) justifications for salary charges were not in compliance with Howard's documentation requirements clearly showing the faculty member's base salary and percentage of effort devoted to the NSF grant, and (iii) \$91,877 of questioned extra salary compensation and other costs were charged to NSF grants.

Effort Reporting System Does Not Generate Accurate After-the Fact Faculty Activity Reports

Howard's after-the fact activity reports did not accurately reflect the correct amount of time faculty members worked on the 5 audited NSF awards in the FY 2004 academic and summer sessions. Additionally, we found that none of the \$172,208 that Howard claimed for cost shared salaries (10% of required NSF cost sharing) was reported and certified by faculty and staff members in the activity reports.

Specifically, review of all FY 2004 after-the-fact activity reports disclosed that seven of the nine faculty members, that charged \$141,468 of salaries to the 5 audited NSF grants, did not correctly report the distribution of their salaries. This occurred because Howard

9-month academic salary was often paid over a 12-month period and/or the Personnel Recommendation Forms were processed late, thus shifting reported labor effort to the wrong ERS reporting period. While it was a common and acceptable Howard practice that six of the faculty members had elected to have their academic year salaries paid over a 12-month period, the ERS should have been modified to accurately report that such labor effort occurred over the 9-month academic year and not over a 12-month period. In addition, we found that the Personnel Recommendation Forms for seven of the nine faculty members were processed late, ranging from 8 days to 4 ½ months, which inappropriately shifted NSF labor effort reported to the subsequent ERS reporting period. Specific examples of some of the weaknesses noted follow:

- A faculty member was to be paid a summer salary of \$24,829 (\$5,643 bi-weekly) from May 15 to July 15, 2004 for full-time work (100%) on an NSF grant. This summer salary was in addition to the individual’s Howard academic salary. However, because the individual elected to have his 9-month academic salary paid over a 12-month period, the faculty member received both his NSF-funded summer salary and a portion of his academic salary during the summer. As a result, his Summer 2004 after-the-fact activity report incorrectly reported NSF effort of only 39%, while in fact he actually was funded by and was working 100 percent on the NSF grant.
- The PI on another NSF grant was to be paid \$15,000 in summer salary from June 1 to August 15, 2003. However, the Personnel Recommendation Form was submitted late and not approved until August 15, 2003, thus the \$15,000 summer salary was not paid until September 2003. As a result, the PI’s after-the-fact activity report for Summer 2003 erroneously reflected no NSF labor effort, while the Academic Fall 2003 reporting period incorrectly included the summer labor effort.

Additionally, we found that the reporting periods, specified in the ERS User Manual, did not coincide with the faculty appointment periods specified in Howard’s Faculty Workload Policy as reflected in the following chart:

Reporting Periods	Period per Faculty Workload Policy	Period Per ERS Manual
Summer	Mid-May to first week in August (3 months)	June 1 to July 30 (2 months)
Academic Fall	August 16 to December 31 ¹⁰ (4.5 months)	August 1 to Dec 31 (5 months)
Academic Spring	January 1 to May 15 (4.5 months)	January 1 to May 31 (5 months)

¹⁰ The Fall and Spring reporting periods are based on the definition for “Academic Year” in the Faculty Workload Policy, which states “**Academic Year** refers to the 9-month period beginning each year on or about August 16th and ending approximately the 15th of the following May.”

Although the Faculty Workload Policy states “Faculty holding nine-month appointments retain eligibility for three months of extramural support during the summer,” the ERS reporting periods established the Academic Year as 10 months and the Summer session as 2 months. Howard official stated that the ERS reporting periods in its User Manual are incorrectly stated and need to be appropriately changed.

In addition, we found that the faculty certification of their activity reports was not timely. Our review of all faculty after-the fact-activity reports for the Fall 2003 and Spring 2004 reporting periods disclosed that the certifications were completed 7 months and 6 months, respectively, after the end of the reporting period. These delays were caused by (1) RFA not generating timely activity reports for faculty certification until three months and two months, respectively, after the ERS established dates and (2) the faculty not timely certifying the activity reports for 3 months and 1 ½ months, respectively, after receipt, instead of the 2-week period required by ERS procedures. Untimely certifications raise concerns about the reliability of the ERS activity reports and the associated labor charges.

Salary Justification Records Do Not Always Support Charges to NSF Grants

Contrary to Howard’s own requirements, our review of the Personnel Recommendation Forms disclosed that the justification sheets did not evidence the accurate computation of faculty salary charged to NSF grants by clearly identifying the member’s Howard base salary and percentage of effort devoted to the award. Also, Howard did not have annual employee contracts documenting the base salary and appointment period for its faculty members.

On June 20, 2002, Howard issued Compliance with Requirements on Payment for Personnel Services to provide guidance for ensuring that it complied with Federal and Howard employee compensation regulations. The guidance required that salary charges to Federal grants be initiated using a Personnel Recommendation Form and a “Justification Sheet,” to include the percentage of effort to be devoted to a grant and the Howard **base salary** for the employee as follows:

- “...the amount of salary funded by the University based on a nine or twelve-month appointment as is applicable, as well as percentage of effort and appointment period.”
- “...the amount of salary funded by grant or contract, as well as percentage of effort and appointment period.”

However, our review of Personnel Recommendation Forms disclosed that “justification sheets” for 7 of the 9 faculty members either did not specify the base salary and/or the percentage of effort worked to evidence correct computation of salary charged to the 5 audited NSF grants. For the 2 remaining faculty members, the arithmetic computation in the “justification sheets” did not support the salary amount charged. For example, the justification sheet for PI summer salary of \$7,500 on NSF grant No. 0000273 only stated that the faculty member was “... the Alliance Coordinator for the Washington-Baltimore Hampton Roads Alliance for Minority Participation (WBHR-LSAMP) Project.” No

other data was provided in the Personnel Recommendation Form and “justification sheet” to document how the \$7,500 salary amount was derived.

In addition, our analysis disclosed that Howard did not have employee contracts documenting the annual base salary and appointment period for its faculty members. According to Howard officials, the only document available for verifying each faculty’s base salary was the annual Operating Budget, which listed the salary for each Howard-funded employee by Department. However, for the nine faculty members reviewed, our analysis disclosed that the Operating Budget salaries agreed with the FY 2004 salaries in Howard’s payroll system for only two individuals. Specifically, the total salary for the nine faculty members in the Operating Budget totaled \$754,183, while the total in the payroll system totaled \$780,538, a difference of \$26,355. As such, the salaries reflected in the Operating Budget could not be used as an accurate source to permit verification of a faculty member’s base Howard salary.

Questioned Salary Costs Charged to NSF Grants

Additionally, \$91,877 or 52% of the \$176,548 of total FY 2004 charges for faculty salaries were questioned costs. Of this amount, 13 percent or \$22,331 was not supported by adequate documentation (see Appendix B for details by grant). The remaining questioned costs of \$69,546 were for unapproved augmented faculty salaries, duplicate salary payments, and summer salaries exceeding NSF’s two-ninths rule.

- Unapproved Extra Faculty Compensation

Contrary to Federal cost principles, Howard’s Faculty Workload Policy allowed faculty members to augment their base salaries without specific Federal agency approval. The January 21, 2000 Policy states:

“As a means of fostering greater productivity in faculty research, *The Strategic Framework for Action (SFA)* calls for consideration of a compensation plan for augmentation of academic year faculty salaries with income from grants...this workload policy will permit full-time faculty members to obtain ...the equivalent of one day per week additional compensation from externally-funded grant...”

As such, Howard augmented the salaries for four of the nine faculty members from NSF grant funds by a total of \$34,838 or 20% of total FY 2004 salary costs, without requesting and obtaining specific NSF approval. Pursuant to the NSF grant proposals, two of these four faculty members, who were paid extra compensation of \$14,050, had proposed release time to work on the grant. However, these PIs never obtained approval for release time from Howard, thus resulting in both individuals improperly receiving extra compensation beyond their base faculty salary. For the remaining two faculty members, the NSF program manager stated he had not received or approved any specific requests for the extra compensation of \$20,788.

- Duplicate Salary Payments

Due to a payroll error, duplicate salary of \$22,704 was paid to one faculty member. The faculty member was to be paid for work on NSF grant No. 9909040 during the summer of 2003. The Payroll Technician mistakenly entered the summer salary in Howard's automated payroll system, as well as in their manual system for processing summer pay. As a result, the individual received total salary payments from the NSF grant totaling \$45,407.

Subsequent Howard staff reviews of the faculty member's salary charged to the NSF grant should have identified the duplicate payments. However, there is no evidence that the Payroll Supervisor, the RFA grant accountant, the PI, or the Grant Project Director evaluated the accuracy of the summer 2003 salary costs claimed on the subject NSF grant. When the Project Director requested that budgeted funds be re-allocated to cover the account shortfall for faculty salaries, neither the Project Director, the PI, or the RFA grants accountant realized that the reason for the re-allocation was to cover the duplicate salary payments. We found that RFA processed the re-allocations without substantive justification from the PI or Project Director, which in this case, circumvented the control objectives of the budget process. Based on our inquiries, Howard returned the excess salary of \$22,703 to the NSF grant on March 24, 2005.

- Summer Salaries Exceed NSF's Two-Ninths Rule

Contrary to the NSF's rule limiting PI summer salaries to two-ninths of their academic year salary,¹¹ we found that three of the nine faculty members exceeded this limitation by \$12,004 or seven percent of total salaries claimed. Specifically, one faculty member exceeded the limitation by \$10,466 because the individual received a summer salary of \$10,620 from an NSF-funded subaward in addition to summer salary of \$19,856 from another award directly funded by NSF. As a result, the total NSF 2003 summer salary exceeded two-ninths of the PIs base salary by \$10,466.

- Unsupported Salaries

Howard did not have adequate documentation to support \$22,331 in salary costs claimed for two of the nine faculty members. Specifically, Howard could not document the basis for the agreed-upon salary of \$15,000 that was charged to one NSF grant for an Adjunct Professor. For the other faculty member, there was

¹¹ Provision 611.1.b.2. of the NSF's Grants Policy Manual states "...NSF policy on funding summer salaries (known as NSF's two-ninths rule) remains unchanged: proposal budgets submitted should not request, and NSF-approved budgets will not include, funding for an individual investigator which exceeds two-ninths of the academic year salary. This limit includes summer salary received from all NSF-funded grants."

similarly no information provided in the Personnel Recommendation Form to explain how the \$7,331 charged to the NSF grant was derived or calculated.

Howard Needs to Assign Clear Responsibility for Oversight of Faculty Salary Charges to Federal Awards

These weaknesses occurred because Howard's organizational structure and processes did not ensure faculty salary costs claimed were in compliance with NSF and Federal grant requirements. Our review disclosed that contrary to Howard's ERS procedures and Federal cost principles,¹² Howard did not conduct an independent internal evaluation of its payroll distribution system to ensure the system's effectiveness and compliance with Federal requirements. As such, Howard management was not aware of the ERS design problems that resulted in the inaccurate after-the fact-activity reports supporting faculty costs charged to NSF grants.

Furthermore, we found that no Howard office was tasked with reviewing the Personnel Recommendation Forms for faculty members to ensure compliance with Federal cost principles. Our review disclosed that the PIs and Departmental officials as well as the Office of Provost staff, involved in initiating and processing these documents, did not have the technical expertise in Federal cost principles to ensure the faculty salaries were properly computed. While RFA staff had the required expertise, grant accountants stated that this was not their assigned role. As a result, no Howard office assumed this responsibility.

In the absence of such oversight, Howard also had not identified other weaknesses in its internal control processes including the lack of employee contracts to document authorized base salary for its faculty members and the absence of current written payroll procedures for processing salaries charged to Federal awards. Human resource officials stated that there is no source documentation at the university to validate the accuracy of faculty member salaries specified in the Howard operating budget, which is the only source of base salary information. In addition, payroll officials stated that there is not a current payroll manual documenting the process to be followed for charging faculty salary to Federal awards. We believe that such payroll procedures are essential particularly given that Howard uses a separate, manual system to process summer salaries on Federal awards rather than using Howard's automated payroll system. Such written procedures would have reduced the risk of the payroll error that resulted in the duplicate salary payments identified during our review.

With regard to the Howard extra faculty compensation policy, the Office of Provost stated that Howard was not aware that such overload compensation required specific Federal agency approval. The official informed us that this workload policy was established essentially as an incentive to encourage faculty members to perform research and seek external funding for such efforts. However, as a result of our audit, he stated

¹² Paragraph J10.b(2)(f) of OMB Circular A-21 requires that the payroll distribution system "will provide for independent internal evaluations to ensure the system's effectiveness and compliance with above standards."

that Howard is re-evaluating this policy as well as the appropriateness of the institutional base salary used in computing faculty summer salaries charged to Federal awards.

Also, the Office of Provost official stated that there were no established Howard procedures for how to process and/or account for release time approved under Federal grants. He informed us that in cases when his office is aware that Howard has granted release time to a faculty member, his staff takes the necessary steps to ensure that the individual's salary from Howard is properly reduced by the same amount of salary charged to and funded by the Federal grant, thus precluding the faculty member from receiving extra compensation above Howard base salary. However, the Office of the Provost official stated his office is often not aware when release time is granted because each individual Howard department generally approves it.

Consequences of Inadequate Internal Controls

The lack of adequate Howard internal control procedures to manage and oversee faculty salary charges to NSF grants raises questions as to the reliability and integrity of the amounts claimed. Howard is unable to ensure that the faculty costs it claimed were in compliance with Federal and NSF requirements, as evidenced by the questioned costs identified for 52 percent of the total FY 2004 faculty salary costs reviewed. As a result of these systemic problems, Howard has an increased risk that additional questioned costs will be charged to NSF grants from the budgeted senior staff costs totaling \$588,064 included in NSF funds obligated during FY 2005. Such improper charges result in diverting limited NSF research funds that could be used for other awards, thereby preventing NSF from distributing funds to those projects most in need of support.

Recommendations

We recommend that NSF's Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA), coordinate with the cognizant audit agency, as needed, to implement the following recommendations:

- 4.1 Require Howard to improve its internal controls over faculty salary charges to NSF awards as follows:
 - a. Howard should perform the required internal evaluation of its ERS processes to ensure the integrity of the system to produce after-the-fact activity reports that are timely, accurate for the reporting period, and evidence that faculty salary charges on NSF grants are in compliance with Federal cost principles.
 - b. Howard should establish:
 - ERS reporting periods consistent with faculty appointment periods,
 - Timeframes to ensure timely processing of Personnel Recommendation Forms,
 - Annual employment contracts to document faculty base salary,

- Procedures documenting current payroll procedures for faculty salaries, and
 - Procedures to account for faculty release time.
- c. Howard should clearly define and assign responsibility to university staff with Federal grant expertise to oversee and monitor faculty salary charges to NSF grants to ensure compliance with NSF and Federal requirements to include reviewing the accuracy and timeliness of Personnel Recommendation Forms and after-the-fact activity reports.
- d. Howard should revise its Faculty Workload Policy to require specific written agency approval for augmenting faculty compensation from NSF grant funds.

Howard Response

In its response to the draft report, Howard delineated actions taken or planned to be taken that will help ensure faculty salary charges to NSF grants are compliant with both NSF and Federal requirements. The University stated that it initiated remedial action to address potential problems with faculty salary costs on sponsored research agreements when it first became aware of the issue in the Spring of 2005.

With regard to recommendation 4.1a, Howard has obtained the services of a consultant to effect ERS changes to produce accurate after-the-fact activity reports to support faculty salary charges to Federal awards. Howard stated that the computer program changes are currently in the final stages of testing prior to applying them to the production version of the ERS. Also, the University stated that the Office of Comptroller has developed procedures for RFA staff, managers, academic administrators, and end-users to assure timely transmission and certification of the Effort Certification Reports.

Furthermore, Howard indicates that it has undertaken a series of other initiatives to address the remaining audit recommendations. Specifically, on January 10, 2006, the President approved the issuance of “Interim Guidelines for Evaluating Personnel Recommendations of Faculty Members Conducting Sponsored Research” to ensure faculty salary charges to Federal awards could be explicitly documented as required by Federal cost principles and NSF requirements. Also, other University actions are currently underway (1) to revise the Faculty Workload Policy to establish a clear requirement that any supplemental faculty salary payments on Federal grants be specifically approved by the sponsoring agency and (2) to develop University policy and procedures on faculty release time and annual documentation of institutional base salary for faculty members.

Concomitantly, Howard reported that policies are being developed to assign responsibility to the Director of RFA, whose grant accountants possess requisite expertise, to review and monitor the new University process to ensure faculty

salary charges claimed are in compliance with NSF and Federal requirements. Howard plans to have its Faculty Workload Policy revised by April 1, 2006 and to be fully compliant with NSF and Federal standards by July 1, 2006.

OIG Comments

Howard's actions appear appropriate and responsive to the audit recommendations. It is important to ensure that all new University policies and procedures are formalized and documented in writing, responsibility is formally assigned to Howard's offices, and implementation is monitored to ensure efficient and effective operations for the support of faculty salary costs charged to Federal awards.

- 4.2 Resolve the \$91,877 in questioned faculty salary, and the associated fringe benefits and Facilities and Administrative (F&A) costs of \$46,918 identified by the audit. (See Appendix B for Schedule of Questioned Costs by NSF award number)

Howard Response

The University accepts the recommendation and will work with NSF to resolve the \$91,877 in questioned faculty salary costs. Additionally, Howard's Office of Comptroller developed a new Policy for Cost Transfers to preclude future duplicate salary payments caused by lack of adequate University review of justifications for reallocation of budgeted costs under a Federal award.

OIG Comments

Howard's proposed corrective action appears appropriate. However, our review of the new Policy for Cost Transfers disclosed that these procedures are primarily directed to transfer of costs from one sponsored project to a different project and not reallocation of budgeted funds within the same sponsored project. Howard may want to clarify this area in its new policy if its intended purpose was to address the procedural weaknesses that resulted in the duplicate salary payment. Also, Howard needs to officially incorporate the new Policy for Cost Transfers into its Manual for Research and Other Sponsored Programs or Internal Procedures Handbook. Procedures are only effective when integrated into day-to-day staff responsibilities and placed in a location where cognizant employees can easily find and reference them.

5. Payment of Stipends to Non-Howard Trainees Needs Improvement

Contrary to OMB regulations, Howard lacked sufficient documentation in its accounting records to support FY 2004 stipend payments of \$109,700 made to trainees from outside organizations. As a result, we found that 4 individuals had received duplicate payments of \$2,800. In addition, the trainees were not required to provide actual receipts to support a \$500 travel allowance paid, estimated to total as much as \$30,000 annually.

Under NSF grant ESI 0102295, middle and high school teachers in the Washington D.C. area were trained to develop advanced skills and understanding in Science, Mathematics, and Technology education content. Approximately 60 teachers were trained annually under this 3-year NSF grant. Each teacher received a maximum stipend of \$2000 consisting of \$900 for attending 9 training sessions, \$500 for mentoring another teacher in their school in their newly learned skills, \$100 for attending a mentoring meeting, and a \$500 travel allowance for attending a professional conference/training session. The PI showed us examples of the documentation available to support payments for the various stipend allowances as follows:

Stipend Purpose	Stipend Amount	Documentation
Attendance at 9 sessions	\$900	Sign-in sheets for each session
Mentoring	\$500	Mentoring checklist and/or mentoring log
Mentor/mentee meeting	\$100	Sign-in sheet for mentoring session
Travel allowance	\$500	A request for the conference & training stipend
Total Maximum	\$2000	

OMB Circular A-110 requires a recipient's financial management system to provide "Accounting records including cost accounting records that are supported by source documentation." However, Howard's Accounts Payable Department made the stipend payments based solely on a PI- provided list of trainees with stated dollar amounts, without any supporting documentation.

Our review of available documentation maintained by the PI disclosed the lack of a system documenting the purpose of the various stipend payments made to each trainee and the absence of an organized system of filing and maintaining source documentation to support the validity of such payments. Of the total \$109,000 of FY 2004 stipend payments, we selected a sample of 22 payments, totaling \$12,400 or 11 percent, and worked with the PI for several hours to locate available documentation in her files. These payments were made to 22 of the 109 teacher trainees¹³ that received payments during the year. First, we found that the PI did not track the purpose of each trainee payment made.

¹³ Actual payment of the various stipend allowances was generally paid individually based on trainee completion of required activities. Thus, payments made in FY 2004 included the students trained in the current year as well as prior years.

Thus, she was not able to determine if a \$500 payment was made for the mentoring or travel allowance. As such, she did not have a record of the various stipend allowance paid by individual trainee. The supporting documentation was very difficult to locate due to the lack of a systematic filing system and the documentation was not always complete. For example, some of the sign-in sheets for the training sessions were not dated. After much effort, we were generally able to find documentation to support payments for attendance and mentoring, which accounted for \$1500 of the stipend maximum of \$2000 that could be paid to each trainee.

However, there was a lack of adequate documentation to support the \$500 travel allowance payment. While the PI generally maintained copies of a trainee request for the travel allowance to attend an upcoming conference/training class, she did not require submission of receipts to validate attendance and document actual expenses incurred because she considered the allowance to be an entitlement. Our review of available records for 4 of the sampled 22 trainees disclosed that only one had submitted travel receipts. Since the lack of supporting documentation did not permit us to determine the total dollar value of actual travel allowances paid under the grant, we estimate that payments could total up to \$30,000 for the 60 participants trained annually. For the 3-year life of the grant, this amount could have totaled \$90,000 or 8 percent of total authorized NSF grant costs.

Additionally, we found that 4 of the 109 trainees paid in FY 2004 received duplicate payments totaling \$2,800. Due to the high risk of erroneous payments based on the lack of documentation for tracking the various stipend payments by purpose and individual trainee, we expanded our review in this regard from the sampled 22 students to all 109 students paid in FY 2004. We totaled all payments made during the fiscal year by each trainee to identify any individuals that received total payments above the \$2000 maximum stipend allowance. The four trainees that received duplicate stipend payments are listed in Appendix C.

Considering the lack of a system for tracking the purpose of the payments made, we believe that it is possible that similar duplicate payments were made to other trainees during the 3-year NSF award term. Considering that the stipends constituted 30% of total grant expenditures of \$1,035,006 as of June 30, 2004, there is a high risk that other duplicate payments were included in the \$306,000 expended for trainee stipends. These weaknesses occurred because Howard relied on the PI, rather than trained financial staff, to review and monitor these grant charges. As such, there was a lack of sufficient documentation to support that the stipend payments were valid NSF grant costs.

Recommendations

We recommend that NSF Division Directors for the Division of Institution and Award Support (DIAS) and the Division of Grants and Agreements (DGA), coordinate with the cognizant audit agency, as needed, to implement the following recommendations:

- 5.1 Require Howard to develop procedures for maintaining adequate source documentation in their accounting records to support stipends paid to outside participants. This should include a tracking system that identifies the purpose of the stipend payment to ensure duplicate payments are not made to trainees.
- 5.2 Resolve the \$2,800 in questioned FY 2004 student payments (See Appendix C for Schedule of Questioned Student Stipends).

Howard Response

Howard acknowledges that while the PI for the subject NSF grant was not able to provide complete documentation for the student stipend payments, it states that the University's procedures do require the maintenance of adequate source documentation. With regard to the recommendations, the University believes that the new PI certification program being developed by the Office of Sponsored Programs will provide the required training in Federal and University policies and procedures to permit PIs in the future to acquire the knowledge needed to properly manage such payments as well as their overall sponsored projects. Additionally, Howard agreed to work with NSF to resolve the \$2,800 of duplicate stipend payments.

OIG Comments

Howard's proposed action to establish a PI certification program to ensure training of its faculty members in Federal and University policy and procedures for grants management appear appropriate as an acceptable alternative to address the intent of audit recommendation 5.1.

Schedule of Claimed Cost-Sharing for FY 2000- 2004

NSF Award Number	NSF Grant Requirements	Claimed NSF Cost Sharing		
		Total Claimed	Howard Portion	Subawardee Portion
HRD 9909040	\$1,425,000	\$3,798,040	\$3,798,040	\$0
HRD 0000273	\$7,952,496	\$7,953,056	\$2,515,670	\$5,437,386
ESI 0102295	\$77,400	\$77,086	\$77,086	\$0
HRD 0302788	\$458,051	\$462,393	\$462,393	\$0
Total Cost Sharing	\$9,912,947	\$12,290,575	\$6,853,189	\$5,437,386

Determination could not be made whether the \$12,290,575 of claimed Howard cost sharing had a direct benefit to NSF awards. Howard's accounting system did not track cost sharing of \$6,853,189 to specific NSF awards and the documentation to support subrecipient cost sharing of \$5,437,386 was inadequate.

Appendix B

Schedule of Questioned FY 2004 Faculty Salary Costs

NSF Award Number	Reasons for Questioned Costs					Fringe Costs	Indirect Costs		Total Questioned Salary
	Augmented Salaries	Unsupported Salaries	Duplicate Payments	Exceeds NSF 2/9 Rule	Subtotal	21.60%	Rate	Dollars	
NOTES	A	B	C	D					
HRD 9909040			\$22,704	\$10,466	\$33,170	\$7,165	8%	\$3,227	\$43,562
HRD 0000273		\$22,331			\$22,331	\$4,823	8%	\$2,172	\$29,327
ESI 0102295	\$24,859			\$788	\$25,647	\$5,540	49%	\$15,282	\$46,468
REC 0229308	\$9,979			\$750	\$10,729	\$2,317	49%	\$6,393	\$19,439
Totals	\$34,838	\$22,331	\$22,704	\$12,004	\$91,877	\$19,845		\$27,073	\$138,796

Note A – Augmented Salaries

OMB Circular A-21, *Cost Principles for Educational Institutions*, Paragraph J.10.d requires that faculty salary charges for work performed on federal grants is allowed based on the “faculty member’s regular compensation” and “should not exceed the proportionate share of the **base salary** for that period.” Only in unusual cases do the federal cost principles allow for faculty salary charges for work beyond the normal academic responsibilities, which would represent extra compensation. Specifically, grant funds should not be used to increase the **base salary** of faculty members unless such extra compensation is “specifically provided for in the agreement or approved in writing by the sponsoring agency.”

Contrary to the OMB Circular A-21, Howard’s Faculty Workload Policy inappropriately allowed faculty to receive “the equivalent of one day per week additional compensation from externally- funded grant.” As a result, on NSF grants ESI 0102295 and REC 0229308, 4 investigators inappropriately augmented their Howard **base salary** by \$34,838 without obtaining specific NSF approval.

Note B –Unsupported Salaries

In accordance with OMB Circular A-21 standards, Howard’s Compliance with Requirements on Payment for Personnel Services, dated June 20, 2002, required that salary charges to Federal grants be initiated using a Personnel Recommendation Form and include a “Justification Sheet” specifying the percentage of effort to be devoted to a grant and the Howard **base salary** for the employee. Contrary to these requirements,

Howard did not have adequate documentation to support \$22,331 in salary costs claimed for 2 faculty members on award HRD 0000273. Specifically, neither the percentage of effort or the Howard **base salary** was reflected in the Justification Sheets for either the Adjunct Professor nor the other faculty member to explain how the \$15,000 and \$7,331, respectively, charged to the NSF grant was derived or calculated.

Note C – Duplicate Salary Payment on HRD 9909040

A Howard payroll error resulted in double salary payments to one researcher during the summer of 2003. The overpayment of \$22,704 was credited to the NSF grant on March 24, 2005. However, at that time, no adjustments were made for the associated fringe costs (21.6%) of \$4,904 and indirect costs (8%) of \$2,209.

Note D – Exceeds NSF's 2/9th Rule for Summer Salary:

Provision 611.1.b.2 of NSF's Grants Policy Manual states "...NSF policy on funding summer salaries (known as NSF's two-ninths rule) remains unchanged . . . NSF-approved budgets will not include funding for an individual investigator which exceeds two-ninths of the academic year salary. This limit includes **summer salary received from all NSF-funded grants.**" Contrary to the subject NSF requirement, three investigators inappropriately charged salaries exceeding two-ninths of their Howard academic year salary totaling \$12,004.

Questioned FY 2004 Student Stipends

Under NSF grant ESI 0102295, we identified \$2,800 of duplicate student stipend payments made in FY 2004.

Student Name	Overpayment
██████████	\$900
██████████	\$500
██████████	\$900
██████████	\$500
Total	\$2,800

Howard University Response to the Draft Audit Report

Note: Howard's response included the following 10 attachments that are not included in this audit report.

- Attachment 1: Organization Chart for Research and Compliance
- Attachment 2: Manual for Research and Other Sponsored Programs
- Attachment 3: Internal Procedures Handbook
- Attachment 4: Requirements to Implement Accounting for Cost Sharing of Salaries
- Attachment 5: Policy for Cost Sharing
- Attachment 6: February 17, 2006 Howard Letter to Subawardees
- Attachment 7: Subagreement Template
- Attachment 8: A Policy for the Collection and Maintenance of, and Action Upon Relevant A-133 Reports
- Attachment 9: Interim Guidelines for Evaluating Personnel Recommendations of Faculty Members Conducting Sponsored Research
- Attachment 10: Policy on Cost Transfers

HOWARD UNIVERSITY

Office of the Provost and
Chief Academic Officer

February 24, 2006

Mr. James J. Noeth
Senior Audit Manager
Office of the Inspector General
The National Science Foundation
4201 Wilson Boulevard
Arlington, VA 22230

Dear Mr. Noeth:

First, we express sincere thanks to you and your colleagues for your thorough assessment of our management of National Science Foundation (NSF) grant funds at Howard University, your recommendations on how we might strengthen our grants management enterprise in accordance with NSF and other federal regulations, and the opportunity to comment on your findings and recommendations. Howard University has a deep commitment to quality research and to working collaboratively with NSF to advance the nation's priorities and needs in the science and engineering fields.

We have reviewed carefully the NSF draft audit report and recommendations and have provided our comments as requested. We extend our appreciation for the changes to the report, which acknowledge the efforts that were documented in our September 6, 2005 response to the discussion draft.

We have organized our current response by reviewing each finding, commenting on the findings, and providing updates regarding actions related to each finding. Similarly, for each recommendation, we have reviewed previous actions taken to address the recommendation, both prior to and since our September 6 response, and outlined future actions planned and included timelines for these actions. In addition, we have included a series of appendices that document the actions described in this response.

We call your attention to the fact that, as stated in the Preamble to this response, the president of the University has appointed a special advisor, [REDACTED], for matters related to sponsored research, faculty engagement in research, and compliance (bio attached). Central among the special advisor's responsibilities are leadership and coordination of the efforts of the relevant University offices engaged in developing and implementing our compliance program and identification of the appropriate organizational structure and resources to support and sustain the program. The University has also appointed a new Chief Financial Officer who has been tasked with review and improvement of the University's internal control mechanisms.



The president has briefed both the chairs of the Audit and Legal and Academic Excellence Committees of the Board of Trustees on a proposed full reorganization of the research grants and contracts administration enterprise. The president will present the new organization to the Executive Committee of the Board and we are confident that the full Board will grant expedited approval.

In addition, [REDACTED] will serve as the interim Compliance Officer and, subject to approval by the Board of Trustees, also serve as Interim Vice President for Research and Compliance. [REDACTED] has been a PI on more than 45 grants and contracts during his professional career, with extensive funding support from the NSF.

Again, thank you for giving us the opportunity to respond to this draft audit report.

Sincerely,

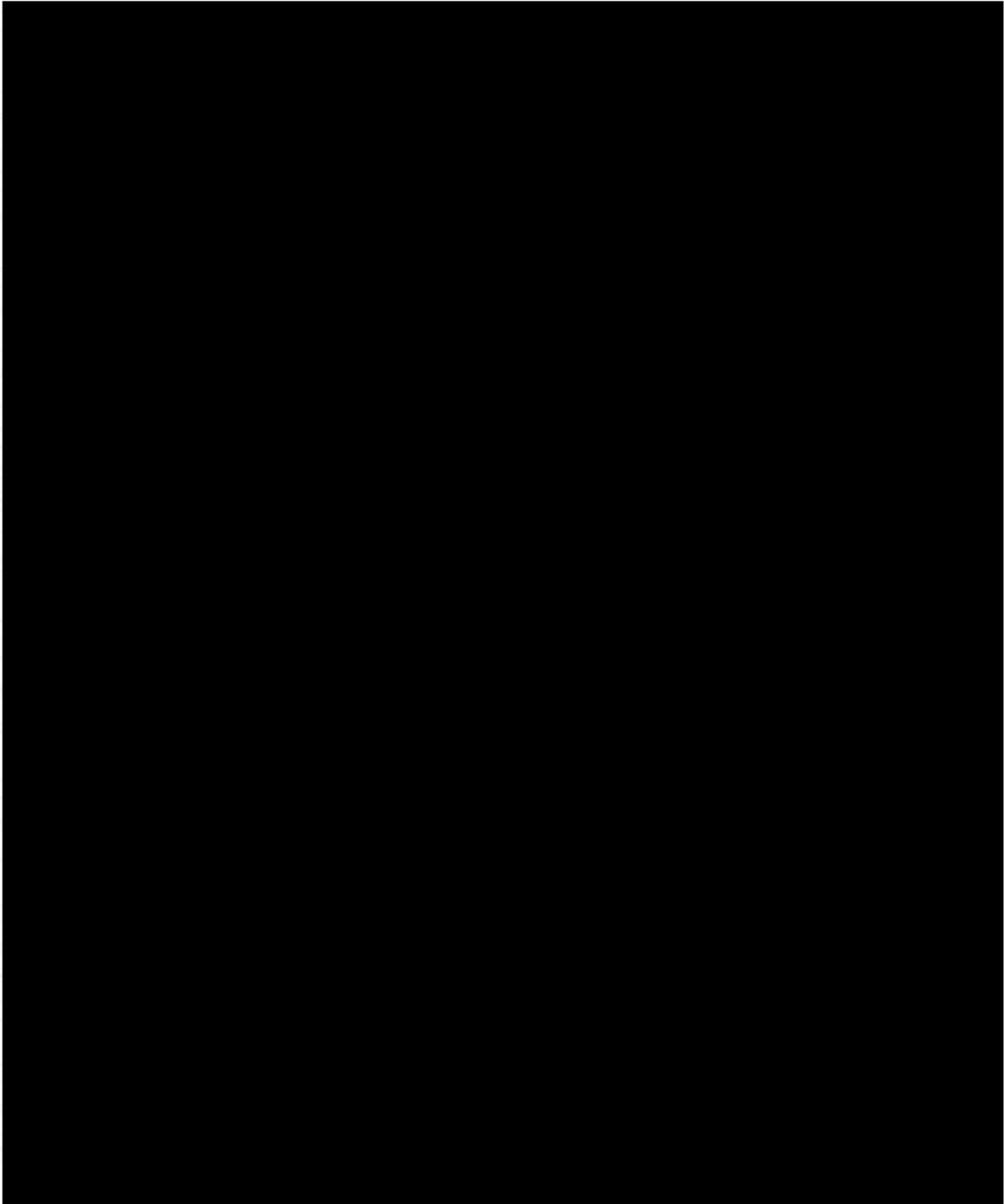
[REDACTED]

[REDACTED]

Attachment

cc:

[REDACTED]



**HOWARD UNIVERSITY
RESPONSE TO NSF DRAFT AUDIT REPORT**

February 24, 2006

Submitted by:

[REDACTED]

and

[REDACTED]

PREAMBLE

The following response is organized to address each of the five areas of concern noted in the NSF Draft Audit report. For each area, the response reviews the findings, comments on the findings, and provides updates on actions taken regarding those findings. With regard to each recommendation, it also delineates actions taken prior to the September 6, 2005 response to the NSF Discussion Draft, actions taken since September 6, 2005, and actions planned with timelines for their completion.

Upon the recommendation of the Audit and Legal Committee of the Board of Trustees, the president of the University has appointed a special advisor on matters related to sponsored research, faculty engagement in research, and compliance. These matters include working with the relevant University offices on a "compliance program" implementation plan and a schedule for its roll-out, which would consist of articulation of the University compliance program's purpose, goals, and functions; definition of the scope of the University compliance program for both external and internal processes and procedures; identification of the optimal organizational integration for the program; recommendation of an initial title and job description for the plan's executor; and specification of the initial resources required (e.g., staffing, space, technology). The University has also appointed a new Chief Financial Officer, with the express charge of improving internal controls.

In addition, the University intends to establish a new, cabinet level position, Vice President for Research and Compliance, pending approval of the Board of Trustees later this spring. The appointee shall serve as the University's senior research officer and shall have full authority to establish strict internal controls for grant and contract administration and the authority to enforce strict compliance with all NSF, other federal, and University policies.

The implementation of the new recommendations and systems contained herein has been and will continue to be a community-based process. The University will phase in the implementation in consultation with the University's research community, the Council of Deans, and other administrators and staff directly involved.

Howard University is poised and fully committed to carry out all actions described within this response to address the findings and recommendations of the NSF Draft Audit report.

1. INTERNAL CONTROLS

A. Review of Findings

1. Comments on Findings

We do not dispute the finding that further action is needed with regard to internal controls over federal grant costs.

2. Updates on Actions Taken Regarding Findings

With regard to the findings in this section, a number of actions have been taken, are in progress, or are planned that will improve internal controls over federal grant costs. The University has identified a number of limitations in its organizational structures that are being addressed to provide adequate internal controls over federal grant costs and ensure compliance with federal rules and regulations. Specifically, we have initiated the reorganization of the research administration process outlined as a part of the University's response to the NSF Discussion Draft. We have also published both a Manual for Research and Other Sponsored Programs for principal investigators and an Internal Procedures Handbook for Research Administration.

As proposed in the University's September 2005 response, we have begun the process of implementing the plan to appoint a new Vice President for Research and Compliance, pending approval of the Board of Trustees, who shall report to the President of the University. A Research Compliance Officer will be appointed also, who will report directly to the Vice President for Research and Compliance. The Office of the Internal Auditor will staff temporarily the research compliance office, particularly in the area of auditing and monitoring, until a permanent staff can be appointed.

B. Review of Recommendations

Recommendation 1.1.: We recommend that Directors for NSF's Division of Institution and Award Support (DIAS) and Division of Grants and Agreements (DGA) require Howard to establish a program for monitoring and overseeing its NSF grant management processes. At minimum, such a program should include:

- a. *Establishing comprehensive and current written policies and procedures for administering and monitoring NSF grant funds to ensure compliance with NSF and Federal grant requirements. Such procedures should:*
 - *Clearly define the specific responsibilities for each university office associated with Federal grant activities, particularly the Office of Restricted Funds Accounting and the Office of Research Administration.*
 - *Provide for a process to ensure implementation of timely and appropriate corrective actions to address deficiencies identified in audit reports and other evaluations.*

1. Actions Taken Prior to Sept. 6, 2005

The University, recognizing the need to centralize authority for research-related functions in order to provide accountability and coherence to its policies and procedures, had considered a major reorganization of its research enterprise, and the University had granted authority for the reorganization of research administration with all positions reporting directly to the Vice Provost for Research as of September 2005. As reported in the University's response to the NSF Discussion Draft, a Manual for Research and Other Sponsored Programs was under review for approval in the period prior to

September 6, 2005. As previously noted, authority for a compliance officer was received prior to September 6, 2005.

2. Actions Taken Since Sept. 6, 2005

Reorganization of Research Administration Enterprise

A full reorganization of the research administration process was outlined as a part of the University's response to the NSF Discussion Draft and has now been implemented. (See Attachment 1: Organizational Chart for Research and Compliance.) This reorganization directly addresses the need identified by NSF to clearly define responsibilities with regard to federal grant activities, including the documentation of cost-sharing as indicated in Section 2 of this response.

As stated in the preamble, the University intends to establish a new, cabinet-level position, Vice President for Research and Compliance, pending approval of the Board of Trustees. The appointee shall serve as the University's senior research officer and shall have full authority to establish strict internal controls for grant and contract administration, and the authority to enforce strict compliance with all NSF, federal, and University policies.

The reorganization will abolish the current Office of Research Administration, which will be replaced by the Office of Sponsored Programs. The chief administrator of this operation will hold a new position, Associate Vice President for Sponsored Programs, which shall be created from the current position of Associate Vice Provost for Research. This position will report to the new Vice President for Research and Compliance.

The Associate Vice President for Sponsored Programs will have overall responsibility for coordination of all day-to-day functions associated with research and contract administration and direct coordination of four new administrative sections: Grant/Contract Accounting, Post-Award Services, Research Administration, and Research Education and Technical Assistance. Within the Research Administration section, the Contract Review Specialist will maintain a close collaborative relationship with the Office of General Counsel.

While this reorganization is not alone sufficient to ensure that policies and procedures with regard to grants administration can be implemented and enforced, this structure will allow the Provost, the Senior Vice President for Health Affairs, the Vice President for Research and Compliance, the Chief Financial Officer, and the General Counsel to have full authority to oversee all functions in the grants administration process, while producing a seamless, coherent unit that will have the capacity to enhance the efficiency and convenience of the research community, while promoting the research agenda of the University. These senior leaders will work in tandem, and no research policy will be promulgated in isolation. Moreover, as discussed below, the Associate Vice President for Sponsored Programs will work directly with the Research Compliance Office to assure that all Howard University policies and practices governing grant and contract administration are in strict conformity with NSF and other federal regulations.

Written Policies and Procedures

A Manual for Research and Other Sponsored Research directed largely toward Principal Investigators and departmental grants administrators, which was also included in the response to the discussion draft, has now been approved. (See Attachment 2: Manual for Research and Other Sponsored Programs.)

Also, an Internal Procedures Handbook for Research Administration, which provides procedures for staff in the Office of Sponsored Programs, has been developed and approved. (Please see Attachment 3: Internal Procedures Handbook for Research Administration.)

Research Compliance Office

Consistent with NSF recommendations, a Research Compliance Office has been established by the University to provide oversight and direction for all compliance aspects of the research enterprise at the University. This Research Compliance Office will report directly to the Vice President for Research and Compliance, in order to prevent the actual or apparent conflict of interest with individuals directly responsible for sponsored research. The Research Compliance Office will be guided by the compliance guidelines promulgated by the Department of Health and Human Services. The Research Compliance Office will have benefit of a Research Compliance Advisory Committee composed of members of the University's research community, including representatives from the University's Institutional Review Board, Institutional Animal Care and Use Committee, Committee on Radiation Safety and Committee on Biohazardous Waste. The Research Compliance Office will work closely with the aforementioned Research Education and Technical Assistance section in the Office of Sponsored Programs to train faculty and administrators in all aspects of compliance with NSF, other federal and University regulations. The Office of the Internal Auditor will assume initial responsibility for certain aspects of the Office of Research Compliance on a temporary basis, specifically in the area of auditing and monitoring.

External Consultation

The university has issued a Request for Proposals (RFP) to retain external consulting firms for assistance in the area of sponsored programs and has now identified and is negotiating with a national firm with expertise in working with national research universities. In addition, the university has retained the services of a former vice president for research at one of the nation's leading research universities to ensure that the practices implemented meet the standards and guidelines at major research universities, to provide suggestions regarding organizational culture throughout the university, and to recommend highly-respected external experts in the field to review and advise on a range of issues across the research administration enterprise. The consultant will also make recommendations regarding the overall effectiveness of the new organization, suggest best practice techniques where needed, and advise as to personnel, training, and evaluations. In addition, the Office of the Internal Auditor will provide a formal review of the University's implementation of the new systems within 90 days of the final issuance of the NSF Audit report.

Training

Training of PIs and staff associated with the research enterprise has continued and has been expanded in recent months under the sponsorship of the Office of the Vice Provost for Research and the Office of Research Administration. Training topics have included Howard University Pre-Award and Post Award Procedures for Faculty and Staff; Non-Resident Alien Tax Regulations; How to Find and Win Grants and Contracts; and Utilization of the Illinois Researcher Information System. Most recently, an intensive workshop for the entire research community was convened in the university's new research building on Implementation of Grants.gov.

Management, Monitoring, and Reporting

In October of 2005, the University hired a new Chief Financial Officer. The CFO has implemented a major assessment of all accounting and finance operations. Subsequent to completion of this assessment, a reorganization of the major accounting and finance functions of the University will take place. The primary focus of the reorganization will be to define specifically the responsibilities of the Office of Restricted Funds Accounting and the accountability of the Office as it pertains to the financial reporting of sponsored awards, grants, and contracts. The new accounting organization will be in place by July 1, 2006.

3. Future Action Plans and Timeline for Completion

Reorganization of Research Administration Enterprise

Implementation of the reorganization discussed above will continue through the remainder of the current academic year, and will be strategically phased in over the next several weeks, with direct input concerning implementation obtained from several key segments of the academic and research communities, namely, the Council of Deans, the Research Advisory Council (a group of some of the most active researchers at the University), and the designated research administrators from the twelve schools and colleges. Several of these positions are new or re-titled positions with responsibilities for these positions delineated in the position descriptions and annual review documents. The University is in the process of identifying the best-qualified individuals from its current staff to fill many of these positions on an interim basis until permanent appointments can be made. As noted above, the compliance function has been undertaken on an interim basis by the Office of the Internal Auditor. A search will be conducted to fill organizational positions on a permanent basis.

Certification of Principal Investigators

As a part of the reorganization of research administration, as well as to ensure compliance with University and federal grants/contracts policies and procedures, a new Research Education and Technical Assistance section in the Office of Sponsored Programs will be created in the immediate future. This section will be responsible for implementing a Howard University certification program required of individual faculty Principal Investigators as well as staff and administrators in the research administration

enterprise. Faculty who are not current Principal Investigators will have the opportunity to enroll in all seminars and workshops offered.

In conjunction with the Research Compliance Office, the Research Education section will expand current training efforts, will develop a series of required seminars that will constitute certification, and will implement a requirement that all current PIs begin enrolling in seminars leading toward certification by January 1, 2007. The Research Education section will provide information on progress and completion of the seminars to the Research Compliance Office, which will advise regarding sanctions for PIs not complying with certification requirements. Additional requirements for certification of university administrators and staff will also be established. An additional range of workshops beyond those required in the certification process will also be made available, and workshops offered outside Howard University will be publicized to faculty, administrators, and staff.

In addition to the formal workshops and seminars offered, technical assistance regarding proposal development will be available to faculty, administrators, and staff of the university.

Research Compliance Office

Development and staffing of the aforementioned Research Compliance Office and the Research Compliance Advisory Committee will continue during the remainder of the current academic year and will be fully operational by July 1, 2006.

b. Designating a high-level Howard official to be accountable for ensuring effective compliance with Federal and NSF grant requirements. Preferably, this official should have authority to report directly to the President and/or to Howard's Governing Board.

1. Actions Taken Prior to Sept. 6, 2005

As previously noted, authority for a compliance officer was received prior to September 6, 2005.

2. Actions Taken Since Sept. 6, 2005

As noted above, we have established a Research Compliance Office, reporting directly to the Vice President for Research, with the interim assignment of some of the compliance functions to the Office of the Internal Auditor to launch the program, specifically in the areas of auditing and monitoring.

3. Future Action Plans and Timeline for Completion

As described above, responsibility for the functions of the Research Compliance Office has been temporarily assumed by the Office of the Internal Auditor.

Recommendation 1.2: We recommend that the Directors of DIAS and DGA require Howard to have an independent evaluation to validate that timely and appropriate corrective actions are implemented to address recommendation 1.1 and all recommendations in audit findings 2 through 5 of this report. Such an evaluation could be performed as part of Howard's annual OMB Circular A-133 audit.

1. Actions Taken Prior to Sept. 6, 2005

No actions taken.

2. Actions Taken Since Sept. 6, 2005

No actions taken.

3. Future Action Plans and Timeline for Completion

The University will ask the incoming external auditors to review the progress of corrective actions proposed in response to recommendations 1.1 and all recommendations associated with findings 2 through 5 simultaneously with its annual OMB Circular A-133 audit. The University will make available to its external auditor this response and all associated documents.

Recommendation 1.3: We recommend that the Directors for DIAS and DGA withhold NSF grant funds if the independent evaluation in recommendation 1.2 discloses that Howard has not implemented timely and appropriate corrective actions to address the audit recommendations to ensure effective management controls over NSF awards.

1. Actions Taken Prior to Sept. 6, 2005

No actions taken.

2. Actions Taken Since Sept. 6, 2005

No actions taken.

3. Future Action Plans and Timeline for Completion

As documented above and throughout this response, Howard University has developed a comprehensive action plan and timelines to ensure that the results of the independent evaluation will demonstrate timely and appropriate corrective actions taken to address all of the audit recommendations.

2. COST SHARING

A. Review of Findings

1. Comments on Findings

Howard University has developed a system to identify, account for, monitor, and report cost sharing effective July 1, 2005, and implementation is ongoing.

2. Updates on Actions Taken Regarding Findings

The current accounting system (the Financial Records System) in place at the University has the capacity to be used to account properly for cost sharing and can link cost-shared expenses to specific NSF awards. We have designated a specific range of cost sharing accounts in the unrestricted subsidiary ledger and are recording cost sharing for salaries in FY06. (See Attachment 4: Requirements for Implementing Cost Sharing.) FY06 effort reports will reflect cost sharing based on salary charges to these accounts. In addition, the PeopleSoft modules, scheduled for implementation in FY07, have the required functionalities to properly identify, record, and monitor cost sharing in accordance with OMB Circular A-110 and Howard University policy for cost sharing.

The university has begun the process of implementing the aforementioned cost-sharing system for all NSF grants. We have already implemented the system for certain grants and will complete the implementation in the near future.

B. Review of Recommendations

Recommendation 2.1: We recommend that Directors of DIAS and DGA require Howard to establish:

- d. An accounting system required by the University's cost sharing policy, that links cost shared expenses to specific NSF awards.*
- e. Clear and specific responsibility for cost sharing compliance on NSF awards is assigned to Howard staff with Federal grant expertise.*
- f. A process to ensure the integrity of annual certifications of cost sharing are submitted to NSF.*

1. Actions Taken Prior to Sept. 6, 2005

The university's Cost Sharing Policy was effective as of June 1, 2005. (See Attachment 5: Cost Sharing Policy.)

2. Actions Taken Since Sept. 6, 2005

As noted above, we have begun to implement the cost sharing system and are recording cost sharing for salaries in FY06. We have established cost sharing accounts for certain NSF awards, and implementation will be completed in the near future.

3. Future Actions Plans and Timeline for Completion

We have established clear and specific responsibility for cost sharing compliance on NSF awards and have delineated these responsibilities in staff position descriptions. PIs are assigned responsibility for obtaining documentation supporting cost sharing requirements and providing these documents to grant accountants. In turn, grant accountants are assigned specific responsibility to ensure that supporting documentation is adequate and for recording cost sharing transactions in Howard University's accounting system. The Research Education and Technical Assistance section in the Office of Sponsored Programs will require full training in cost sharing principles and accounting for all Principal Investigators, Research Administrators, and Grant Accountants with cost sharing responsibilities. As required, PIs and staff will be required to attend training opportunities external to the university, and the use of external consultants will be considered as appropriate.

We have established a process to ensure that annual certifications of cost sharing are submitted to the NSF. Grant accountants are assigned responsibility for preparing the certifications, and the Authorized Institutional Representative is responsible for reviewing and signing the certifications. As noted above, the Office of Sponsored Programs will require staff involved in cost sharing certification to enroll in appropriate training.

3. SUBAWARD MANAGEMENT AND MONITORING

A. Review of Findings

1. Comments on Findings

For the period of the audit 2000-2004, we do not disagree with the statement that subaward management and monitoring need improvement.

2. Updates on Actions Taken Regarding Findings

In early 2004, the individual with the responsibility for the subawards in question was replaced. In September 2005 (see below) more explicit provisions were added to the subaward agreements to better delineate the responsibilities of both parties and facilitate improved monitoring of subawards on the part of what was the Office of Research Administration. (The new Office of Sponsored Programs will assume this function.)

With regard to NSF grant No. HRD 0000273, the Principal Investigator for this ongoing project has sent the attached letter to the subawardee institutions seeking to obtain the full and complete documentation required for all expenditures including cost sharing expenditures. (See Attachment 6: HRD 0000273 letter to subawardees.)

B. Review of Recommendations

Recommendation 3.1: We recommend that Directors of DIAS and DGA require Howard to establish subaward management procedures for NSF grants to:

a. Clearly identify and assign to Departments/Pis, ORA, and RFA their respective responsibilities for all aspects of subaward management and monitoring including the issuance of timely and accurate subaward agreements and amendments; assessment of subrecipient risk of noncompliance with NSF and Federal grant requirements; and the development of specific subrecipient monitoring plans based on such risk assessments.

1. Actions Taken Prior to Sept. 6, 2005

With the approval and urging of the administration of Howard University, changes described in more detail below were made to the subagreement template to address directly and explicitly the issues raised by NSF. (See Attachment 7: Subagreement Template.)

- a) The primary responsibility for subaward monitoring was assigned to the Office of Research Administration and is so indicated in the agreement;
- b) The assessment of subrecipient risk of noncompliance is addressed in 3.1(b) and (c) below. The issue is addressed with more detailed statements of work and the development of specific subrecipient monitoring plans based on such risk assessments.

2. Actions Taken Since Sept. 6, 2005

The actions described in (a) above have been implemented. Internal procedures for subrecipient monitoring have been incorporated in the Manual for Research and Other Sponsored Programs.

3. Future Action Plans and Timeline for Completion

No further action is anticipated.

b. *Modify standard Howard subaward terms and conditions to require (1) periodic financial progress reports, (2) clear identification of the dollar amount of required cost sharing, (3) documentation and reporting of required and actual cost sharing amounts, and (4) budgetary restrictions on participant support/trainee costs, (5) Howard will conduct regular and periodic on site audits of subawardees.*

1. Actions Taken Prior to Sept. 6, 2005

As noted previously, on September 5, 2005, the Howard University administration authorized and directed the review and revision of the standard subcontract templates.

2. Actions Taken Since Sept. 6, 2005

In response to the subject recommendation, wording changes have been made to the University's subcontract language. Each of the issues is being addressed with contract language, as follows:

1) Specific requirements for periodic financial reports will be included in Section 2.0, the Scope of Work. Section 14.0, Reports and Information, refers to these requirements in addition to all other requirements of the prime award, as follows:

SUBAWARDEE SHALL FURNISH TO THE UNIVERSITY ALL PROGRESS REPORTS AND INFORMATION REQUIRED BY THE SPONSOR OR SPECIFIED IN SECTION 2.0 IN CONNECTION WITH THE SUBAWARDEE'S PERFORMANCE HEREUNDER. SUCH REPORTS AND INFORMATION SHALL BE SUBMITTED TO THE UNIVERSITY IN ACCORDANCE WITH THE FOLLOWING SCHEDULE AND IN A FORM AND OF A QUALITY THAT ARE CONSISTENT WITH THE REQUIREMENTS OF THE PRIME AGREEMENT. **[SPACE FOR SCHEDULE]**

2) The dollar amount of required cost sharing will be prominently presented as one of the parameters of the subagreement in Part D at the beginning of subaward, as follows:

COST SHARING AMOUNT TO BE CONTRIBUTED BY SUBAWARDEE: \$_____

This amount is referred to in other provisions of the subagreement (Sections 9.0 and 15.0).

In addition, this subagreement incorporates specific wording applicable to cost sharing in Section 9.0(c), as follows:

THIS IS A COST SHARING AGREEMENT, AND SUBAWARDEE AGREES TO CONTRIBUTE THE AMOUNT INDICATED IN PART D, ABOVE, TOWARD THE COSTS OF ACCOMPLISHING THE WORK DESCRIBED IN SECTION 2.1. THE FOLLOWING PROVISIONS APPLY TO THE COST SHARING:

- IF THE SUBAWARDEE’S COST PARTICIPATION INCLUDES IN KIND CONTRIBUTIONS, THE BASIS FOR DETERMINING THE VALUATION FOR VOLUNTEER SERVICES AND DONATED PROPERTY MUST BE DOCUMENTED AND APPROVED BY THE UNIVERSITY

- [SUCH OTHER PROVISIONS AS MAY BE DEEMED APPROPRIATE]

3) To make more explicit the requirement for documentation and reporting of required and actual cost sharing amounts, the new language includes the following:

Subsection (b) has been added to Section 11.0, as follows:

(B) THE SUBAWARDEE SHALL DOCUMENT ITS COST SHARING PARTICIPATION WHEN INVOICES ARE SUBMITTED. SUBAWARDEE MAY USE THE ATTACHED FORM OR AN INVOICE THAT PROVIDES COMPARABLE DETAIL AND DOCUMENTATION.

Subsection (b) has been added to Section 15.0, as follows:

SUBAWARDEE AGREES TO CONTRIBUTE COSTS IN THE AMOUNT INDICATED IN PART D, ABOVE, TOWARD THE ACCOMPLISHMENT OF THE WORK DESCRIBED IN SECTION 2.1. SUBAWARDEE SHALL DOCUMENT AND MAINTAIN RECORDS OF ALL PROJECT COSTS THAT ARE CLAIMED AS CONTRIBUTION TOWARDS COSTS, TO THE SAME EXTENT AND IN THE SAME MANNER AS COSTS FOR WHICH SUBAWARDEE SEEKS REIMBURSEMENT. THE PROVISIONS SET FORTH IN SUBSECTION 15.0(A) [PERTAINING TO RECORDS AND AUDITS] APPLY TO SUCH COSTS.

4) Participant support/trainee costs will be included in an approved budget for the subaward. The new language in Section 9.0 is more explicit and emphasizes to a greater extent the requirement that all expenditures must conform to the approved budget. The following language is believed to address this issue with respect to all budgeted areas:

COSTS INCURRED AND PAID BY THE SUBAWARDEE THAT ARE ALLOWABLE, REASONABLE, AND PROPERLY ALLOCATED TO THIS SUBAGREEMENT WILL BE REIMBURSED BY THE UNIVERSITY IN A MANNER AND TO AN EXTENT THAT IS CONSISTENT WITH (1) OFFICE OF MANAGEMENT AND THE BUDGET (“OMB”) CIRCULAR A-21, AND (2) THE SUBAWARDEE’S APPROVED BUDGET, ATTACHED HERETO AS EXHIBIT _____ AND INCORPORATED HEREIN BY THIS REFERENCE. EXPENDITURES INCONSISTENT WITH THE APPROVED BUDGET, INCLUDING ANY REALLOCATION OF BUDGETED FUNDS, MUST BE APPROVED IN WRITING BY THE UNIVERSITY TO QUALIFY FOR REIMBURSEMENT OR COST SHARING CREDIT.

These changes have now been incorporated into the University’s standard subagreement template.

3. Future Action Plans and Timeline

The University will monitor the results of the changes it has implemented and continue to look for ways to improve its contracting processes and increase assurance of compliance with all applicable requirements.

c. Establish a formal process and assign clear Howard responsibility to ensure appropriate corrective actions are implemented to address prior Howard OIA and A-133 audit findings and recommendations pertaining to subaward management.

1. Actions Taken Prior to Sept. 6, 2005

On February 28, 2005, the Associate Vice Provost for Research and the Comptroller jointly adopted a process for the review of A-133 compliance from subrecipients and the initiation of necessary action in cases of A-133 findings in the subrecipient's audit reports.

This process is can be summarized as follows: the Office of the Associate Vice Provost for Sponsored Programs has the responsibility for the collection of A-133 reports from subrecipients; these are requested and collected as part of the execution of subagreements, and are scanned and maintained in the directory *F:\A-133 Audit Requirements* on the ORA network. The Office of the Associate Vice Provost for Sponsored Programs conducts a semi-annual review to ensure that all such reports are received.

When such a report contains a report of an audit finding, the Office of the Associate Vice Provost for Sponsored Programs requests the subrecipient's audit report, and upon receipt, forwards the response to the Director of Grant/Contract Accounting with any recommendations for action.

It should also be noted that Howard has been carefully monitoring the work of the Federal Demonstration Partnership in particular concerning the collection of A-133 reports and audit reports where required, with the likelihood of simplified procedure for the collection and maintenance of A-133 reports and audits.

Although Howard is not a member of the FDP, it is our intention to join at the next membership period, expected in 2007, and subsequently to adopt the FDP model for the monitoring of A-133 reports.

2. Actions Taken Since Sept. 6, 2005

This process was further modified as of February 3, 2006, and the modified agreement is attached. (See Attachment 8: A-133 Compliance Policy.) The Associate Vice Provost for Research and the Comptroller agree that should any action be initiated, the Comptroller will report this action to the Associate Vice Provost for Research so that the latter will be the repository for the history of any Howard action.

3. Future Action Plans and Timeline for Completion

No further action is anticipated.

4. **FACULTY SALARIES**

A. **Review of Findings**

1. Comments on Findings

We have no comment on the overall finding.

2. Updates on Actions Taken Regarding Findings

As noted below, we have made and are making changes that address the findings in this section.

B. **Review of Recommendations**

Recommendation 4.1: We recommend that Division Directors for DIAS and DGA require Howard to improve its internal controls over faculty salary charges to NSF awards as follows:

- a. Howard should perform the required internal evaluation of its ERS processes to ensure the integrity of the system to produce after-the-fact activity reports that are timely, accurate for the reporting period, and evidence that faculty salary charges on NSF grants are in compliance with Federal cost principles.*
- b. Howard should establish:*
 - *ERS reporting periods coincident with faculty appointment periods,*
 - *Timeframes to ensure timely processing of Personnel Recommendation Forms,*
 - *Annual employment contracts to document faculty base salary,*
 - *Procedures documenting current payroll procedures for faculty salaries, and*
 - *Procedures to account for faculty release time.*
- c. Howard should clearly define and assign responsibility to university staff with Federal grant expertise to oversee and monitor faculty salary charges to NSF grants to ensure compliance with NSF and Federal requirements to include reviewing the accuracy and timeliness of Personnel Recommendation Forms and after-the-fact activity reports.*
- d. Howard should revise its Faculty Workload Policy to require specific written agency approval for augmenting faculty compensation from NSF grant funds.*

1. Actions Taken Prior to Sept. 6, 2005

The University became aware of potential problems concerning faculty salary charges to sponsored research agreements during the early spring of 2005 and began taking remedial action. Most notable among these was the review of Personnel Recommendation (PR) forms in the Office of the Provost to assure consistency with the proposed budgets submitted to the NSF and with applicable NSF and other federal requirements, such as the two-ninths rule and the prohibition against supplemental salary payments without the express approval of the sponsoring agency. From early summer 2005 onward, recommendations that did not comply with the requirements were returned to the point of origin for revision and resubmission. These included recommendations seeking supplemental salary payments that lacked NSF written authorization and those that did not comply with the two-ninths limitation on summer compensation.

Recognizing that the University's Faculty Workload Policy may in part have accounted for the possibility of inappropriate faculty salary charges to sponsored agreements, the Office of the Provost also began a review of that document during the summer of 2005 to identify passages that might be interpreted in ways that conflicted with federal regulations and to revise them appropriately. The sections in the original document that resulted in supplemental salary payments without written authorization by the sponsoring agency have now been revised.

With respect to the Effort Reporting System (ERS), the Office of the Comptroller performed periodic evaluations of the system's processes, even if not strictly on an annual basis, from the time it was implemented in 2002. The University also engaged a consultant (██████████) to perform various enhancements. For example, the problem of inaccurate effort reporting for faculty who work the nine-month academic year but elect to be paid over twelve months was identified by management and discussed with the consultant prior to September 2005.

2. Actions Taken Since Sept. 6, 2005

Since September 2005, the University has continued the examination of faculty salary charges. The ERS continues to undergo testing and modification. Computer program changes were developed to fix the problem associated with nine-month faculty members being paid over twelve months and the University is in the final stages of testing these changes prior to applying them to the production version of ERS. Additionally, the Director of Restricted Fund Accounting (RFA) has been instructed to monitor the ERS process to ensure that activity reports are issued within 45 days of the end of the reporting period and that each faculty member certifies the reports within the two weeks as specified in the ERS User Manual. The reporting periods in the ERS User Manual and on the Effort Certification Reports have been corrected and are now consistent with faculty appointment periods specified in the Faculty Workload Policy. Finally, the Office of the Comptroller has developed procedures for staff, managers, academic administrators, and

end-users to assure the timely transmission and certification of Effort Certification Reports following the end of each reporting period.

Efforts to improve the accuracy and timely processing of PR forms have been advanced by the “Interim Guidelines for evaluating Personnel Recommendations of faculty members conducting sponsored research,” approved by the President on January 10, 2006. (See Attachment 9: Interim Guidelines for Evaluating Personnel Recommendations.) These guidelines, in addition to the timely initiation of PR forms by principal investigators, should help to eliminate delays caused in the past by faulty preparation of justification sheets and documents supporting PR forms. Finally, revised policies and procedures regarding annual notice to each faculty member of his or her base salary, the Faculty Workload Policy, and faculty release time have been developed.

The Office of Restricted Fund Accounting (RFA) had some years ago developed procedures documenting the payroll process for charging faculty and staff salaries to grants. RFA accountants, who possess the requisite expertise to ensure that NSF and federal requirements are met, have responsibility for monitoring faculty salary charges to all federal grants. (See Attachment 10: Procedures for Documenting Payroll Charges to Grants.) The Director of RFA has been instructed to monitor this process to ensure consistent and timely application of these procedures.

Finally, in response to the finding that \$172,208 in cost-shared faculty and staff salaries were improperly recorded and certified in activity reports, the Office of the Comptroller has developed procedures for better tracking cost-shared portions of faculty salaries in the budgeting and accounting system and in the Effort Reporting System. In short, a Budget Recommendation form will transfer the appropriate budget for the cost-shared portion of the faculty member's salary from the departmental salary account to the specially designated cost-sharing account described earlier in this response. An accompanying Personnel Recommendation form will result in salary charges to the cost-sharing account and these, in turn, will be reflected on the Effort Certification Report.

Similarly, for other types of cost sharing, such as for scholarships, trainee costs, and equipment, appropriate budget transfers will be made from the funding accounts (for example, departmental budget accounts) to specifically designated cost sharing accounts for each project

3. Future Action Plans and Timeline for Completion

The University expects to be fully compliant with NSF and other government requirements regarding faculty salary costs charged to the NSF by the start of the new fiscal year on July 1, 2006. The specific objectives and timelines of completion for the revised policies and procedures that have not yet been fully implemented are as follows:

- a. Timeframes for the timely processing of Personnel Recommendations are being developed consistent with the impending PeopleSoft implementation. In the interim, submission of Personnel

Recommendations according to the “Interim Guidelines for evaluating Personnel Recommendations of faculty members conducting sponsored research,” mentioned above, will improve the accuracy and timeliness of processing.

- b. The revised policies and procedures regarding sections of the Faculty Workload Policy dealing with faculty compensation from sponsored research agreements, release time, and cost-sharing of faculty salaries will be distributed by April 1, 2006.
- c. Formal notification to individual faculty members of their base salaries will begin immediately for persons with current sponsored research agreements and proceed to the rest of the University’s faculty. The notices will be updated again at the start of the new fiscal year on July 1, 2006.

Recommendation 4.2: We recommend that Division Directors for DIAS and DGA resolve the \$91,877 in unallowable faculty salary, and the associated fringe benefits and Facilities and Administrative (F&A) costs of \$46,918 identified by the audit. (See Appendix B for Schedule of Unallowable Costs by NSF award number)

The University accepts the recommendation to work with the directors of the DIAS and DGA to resolve the \$91,877 in unallowable faculty salary and the associated fringe benefits and F&A costs, while at the same time noting, as the report itself does, that the University returned the \$22,703 in duplicate faculty salary payments to the appropriate grant on March 24, 2005. In response to the draft report’s conclusion that the duplicate salary payment went undetected in part because reallocations were made without substantive justification from the PI or Project Director, the Office of the Comptroller developed a Policy on Cost Transfers. (See Attachment 11: Cost Transfer Policy.) This policy, to which all appropriate staff will be held strictly accountable, will assure that cost transfers are timely, appropriate, and properly authorized.

5. NON-STUDENT STIPENDS

A. Review of Findings

1. Comments on Findings

Howard University does have systems, policies, and procedures requiring the maintenance of adequate source documentation for payment of stipends, including travel stipends. We acknowledge the finding that the PI was not able to produce complete documentation for the stipends paid; however, the University procedures for requesting such payments do require that such documentation be provided. The double payment of stipends appears to have resulted from an error in the processing of documents and a failure to follow University policies.

As noted above, the certification program being developed by the new Research Education and Training section will require all PIs to receive training in federal and university policies and procedures, including what constitutes adequate documentation

and the requirement to provide it to support payments. Sanctions will be applied by the Research Compliance Office to PIs who fail to follow such procedures. In addition, personnel in the Grant/Contract Accounting section will also be required to attend workshops and receive certification to ensure their understanding of federal and university policies and procedures regarding appropriate documentation.

2. Update on Actions Taken Regarding Findings

Because the double payments were noted considerably after the fact, the PI had limited ability to effect the return of the funds to the grant at the time. The PI did attempt to contact the individuals who received double payments after the payment was noted, but the PI was unable to obtain a response or recover any funds.

B. Review of Recommendations

Recommendation 5.1: We recommend that the Directors for DIAS and DGA require Howard to develop procedures for maintaining adequate source documentation in their accounting records to support stipends paid to outside participants. This should include a tracking system that identifies the purpose of the stipend payment to ensure duplicate payments are not made to trainees.

1. Actions Taken Prior to Sept. 6, 2005

No actions taken.

2. Actions Taken Since Sept. 6, 2005

As noted below and in the response to Finding 1, Howard University will develop and implement a Research Education and Technical Assistance section within the Office of Sponsored Programs.

3. Future Action Plans and Timeline for Completion

As stated in the response to Finding 1, Howard University will develop and implement a Research Education and Technical Assistance section within the Office of Sponsored Programs that will ensure that principal investigators are aware of and follow the research policies and procedures of the University. Personnel from all units related to grants and contracts will be required to attend training, and Principal Investigators will be made aware that failure to comply with regulations will result in the recommendation of sanctions by the Research Compliance Office.

The Manual for Research and Other Sponsored Programs clearly presents requirements for documenting student stipends and travel costs and delineates policies governing student travel advances. All such policies are in strict compliance with NSF regulations.

Recommendation 5.2: We recommend that the Directors for DIAS and DGA resolve the \$2,800 in unallowable FY 2004 student payments (See Appendix C for Schedule of Unallowable Student Stipends).

1. Actions Taken Prior to Sept. 6, 2005

The Principal Investigator attempted to recover the duplicate payments, but was unsuccessful due to the large amount of elapsed time between the payments and the discovery of the error. The Principal Investigator contacted the recipients by telephone and email, and even attempted to visit one recipient at his place of work, where she discovered that he was no longer employed. She received no response in other cases.

2. Actions Taken Since Sept. 6, 2005

No further actions taken.

3. Future Action Plans and Timeline for Completion

The University accepts the recommendation to work with the directors of the DIAS and DGA to resolve the \$2800 in unallowable FY 2004 student payments in a manner acceptable to NSF.