



AUDIT AND ADVISORY SERVICES

Sponsored Projects–Effort Reporting (Summer Salaries) Audit Project No. 14-622

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June 24, 2014

John Wilton
Vice Chancellor
Administration and Finance

Vice Chancellor Wilton:

We have completed our audit of Sponsored Projects–Effort Reporting focusing on summer salaries as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Any observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Contracts and Grants Accounting, Campus Shared Services and the Academic Personnel Office for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive

cc: Executive Vice Chancellor and Provost Claude Steele
Vice Chancellor Graham Fleming
Assistant Vice Chancellor and Controller Delphine Regalia
Assistant Vice Provost Heather Archer
Chief Operating Officer Thera Kalmijn
Director Karen Wilson
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University of California, Berkeley
Audit and Advisory Services
Sponsored Projects- Effort Reporting (Summer Salaries)

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EXECUTIVE SUMMARY

The purpose of the audit was to evaluate internal controls and the end-to-end processes in place to ensure that effort reporting for faculty receiving summer salaries was accurate and compliant with the Office of Management Budget (OMB) Circular A-21 (Cost Principles for Educational Institutions).

To evaluate compliance, we selected a sample of faculty who received summer salary between May 18, 2013 and August 22, 2013 according to payroll records. We reviewed the entire population of nearly 1,040 faculty members who received summer salary compensation and identified 48 faculty members over both effort reporting periods (January through June 2013 and July through December 2013) who may have potentially been paid amounts over the National Science Foundation (NSF) or other federal sponsors' summer salary caps. Any payments made to the principal investigator (PI) for summer salary that were not from federal funds were excluded from the scope of this review.

Based upon our audit testing, we observed that in each case the PIs who certified appeared to have had reasonable knowledge of the effort being certified. It is campus policy that all PIs certify their own reports and we found that this was consistently done in our sample. Through discussion, we learned that PI salary could be spread out to include research done during summer months with documentation through attestation of the eligible summer days that they intended to conduct their research. In addition, we noted that effort reports in our sample were certified timely and that any changes made to payroll distributions through payroll cost transfers automatically updated the effort reporting system and a new version of the effort report was issued to be certified.

As part of our end-to-end consideration of the campus process for managing faculty summer appointments, we noted the critical role of timely and accurate set-up procedures for such appointments. Appointments set up with inaccurate payroll distributions or appointment percentages increase the risk of non-compliance with OMB Circular A-21 and specific agency requirements. We observed that two units of Campus Shared Services (CSS), Human Resources/Academic Personnel Support and Research Administration, have worked together to increase control activities related to accurately setting up summer faculty appointments. Although the implementation of these activities for summer 2014 fell outside our audit period, our preliminary assessment of their design is that they appear reasonable to detect routine errors that may lead to appointments exceeding campus or agency limits of summer effort paid with federal funds. We note that the benefits of such procedures would however be limited to units who are or will be supported by CSS.

OVERVIEW

Source and Purpose of the Audit

The purpose of the audit was to evaluate internal controls and the end-to-end processes in place to ensure that effort reporting for faculty receiving summer salaries was accurate and compliant with current and anticipated changes to federal guidelines.

Scope and Methodology of the Audit

Our audit scope included faculty who received summer salary between May 18, 2013 and August 21, 2013 according to payroll records. We reviewed the entire population of nearly 1,040 faculty members who received summer salary compensation and identified 48 faculty members over both effort reporting periods (January through June 2013 and July through December 2013) who may have potentially been paid amounts over the NSF or other federal summer salary caps. Any payments made to the PI for summer salary that were not from federal funds were excluded from the scope of this review.

We selected the sample from the population of faculty members who received summer salary in 2013 according to the campus payroll system.

- The population included those with payroll earning codes (AAC, ACA, ACR, AFR, ARC) and job and class title outline (CTO) codes (541, 3998, etc.) for summer 2013 totaling approximately 1,040.
- Of those, 48 (4%) who received summer salary from federal funds initially appeared to potentially have payment calculations exceeding three-ninths or 300% of their monthly academic year appointment salary for National Institutes of Health (NIH) and other federal funds, and/or two-ninths or 200% for NSF.
- For the population, both the January through June 2013 and July through December 2013 effort reports were tested, for a total of 96 effort reports.

In reviewing the 96 reports, we considered whether the following objectives were met:

- Effort reports are certified by someone with adequate knowledge of the research done and that PIs certify their own effort reports.
- The award allows for summer research and salary and that the process for setting up summer salary payments provides adequate documentation and assurance that it is accurate.
- Effort reports are certified timely.
- Any adjustment made to payroll (payroll cost transfers) that impact summer salary paid by federal funds is completed accurately in all impacted systems (Payroll Personnel System (PPS), Effort Reporting System (ERS), etc.).
- The current or planned monitoring and validation process(es) to detect discrepancies between what is paid and reported versus what should have been is adequate.

- Training and guidance has been provided to ensure the campus is prepared for upcoming changes to the federal circular.

Background Information

OMB Circular A-21 (Cost Principles for Educational Institutions) establishes rules and regulations for cost reimbursement for compensation for personal services related to a federal grant or agreement. Effort is defined as the amount of time spent on a particular work-related activity. Individual effort for a particular activity is expressed as a percentage of the total amount of time spent on work-related activities (instruction, research, patient care, administration, etc.) for a given period for which the University compensates the individual for these personal services. Effort reporting is a method of certifying, through after-the-fact confirmation of percentage distribution of activity, to the granting agencies that the effort required as a condition of the award has been completed. To confirm that the distribution of activity represents a reasonable estimate of the work performed, the reports are to be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.¹ Although OMB Circular A-21 does not use the term “effort reporting” or explicitly state that effort certifications are required for commitments of time funded from other resources that were proposed and awarded in project budgets (i.e., committed cost shared effort), other statements from OMB (e.g., OMB Memorandum M-06-01, dated January 5, 2001) imply that the Federal government expects effort to be certified when an individual is compensated from or has made a commitment to contribute time to a federally sponsored project.

Furthermore, specifically for faculty who perform work on sponsored agreements during the summer months or other periods not included in the base salary period, their compensation and effort should be determined at a rate not in excess of the base salary divided by the period to which the base salary relates (typically one month for faculty on a nine-month academic year appointment or “one summer-ninth”). Summer salary paid against a federal grant or contract can only be used to compensate faculty for summer research, not for teaching or any other non-research activities. In addition, there are limited eligible working days per working month and total days and percentage of monthly salary that are capped across the total summer days worked.

In order to comply with these requirements, the Executive Vice Chancellor and Provost (EVCP) in 2009 set a cap of 2.5 summer ninths (48 weekdays²) from federal sources. Faculty PIs wishing to take more than 2.5 ninths must complete and submit an attestation form indicating the intended effort to the Office of the EVCP. In addition, certain federal agencies, such as NSF established lower compensation limits, two ninths (38 weekdays), in the absence of prior approval to exceed that from the agency.

¹ OMB issued a new circular on December 26, 2013 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) which instructs federal agencies to promulgate the updated regulation to be effective December 26, 2014. As of the close of our fieldwork (May 2014), individual agencies have not yet issued specific implementing guidance. However, we note that the language of the new circular moves away from the language of a “suitable means of verification that the work was performed” and instead emphasizes a responsibility to “establish and maintain effective internal control....These internal controls should be in compliance with guidance in ‘Standards for Internal Control in the Federal Government’ issued by the Comptroller General of the United States and the ‘Internal Control Integrated Framework’, issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO).”

² The actual number of days in a summer ninth may vary from year to year depending on the date of the end of the spring semester and the beginning date of the fall semester.

To ensure compliance with OMB Circular A-21 and to increase the system of internal controls related to compensation charged to federal awards, the University of California created a web-based after-the-fact effort reporting system, which interfaces with the campus PPS, which is hosted by the Office of the President (UCOP), and campus cost sharing systems, replacing the paper-based Personnel Activity Report (PAR) system. ERS was implemented on the Berkeley campus in 2006. ERS is also hosted by UCOP, but configured to meet the needs of the individual campuses, such as a semester-based academic calendar.

Locally, Contracts and Grants Accounting works with UCOP to maintain and update the campus ERS as well as to train users and provide guidance about how and when to certify effort reports. They also are responsible for approving and processing exceptional payroll cost transfers that are requested after 120 days (90 days for awards that are closing) from the payroll distribution, which triggers the release of an updated effort report for recertification.

The Academic Personnel Office is the local campus resource for academic personnel policy and guideline information and provides links to pertinent external information impacting academic personnel.

Approximately 65% of the campus now receives support from CSS for certain administrative services that used to be performed within individual departments and units. For those units, the process is designed for the CSS Research Administration and/or Human Resources/Academic Personnel Support units to perform their respective roles in setting up the summer salary, obtain necessary approvals and attestations, review award language for compliance, review payroll distributions with PIs, maintain monthly spreadsheets of PIs effort to provide support for the effort reporting process and conduct audits at various stages in the process to ensure accuracy.

Summary Conclusion

Based upon our audit testing, we did not have reportable observations related to the overall knowledge of certifiers to reasonably certify the effort reported. It is campus policy that all PIs certify their own reports and we found that this was consistently done in our sample. The effort reports in our sample were certified timely and any changes to payroll distribution in the form of payroll cost transfers automatically updated ERS and triggered a new effort report version for certification.

As of May 2014, CSS has created and implemented a process using a software program called, Smartsheet, that was customized to meet campus needs. Certain controls have been programmed into the rules in the sheet such as, once the federal granting source is identified (NSF or NIH/all other federal), the sheet has a function that alerts the person making the entry when monthly and/or summer salary caps are exceeded. E-mails can be sent directly from the form to designated approvers to update the approval in the form remotely and documents such as attestation forms, grant terms and comments are all attached. CSS has updated their process to further support the effort certification function on campus. The process is designed to have research administrators maintain monthly spreadsheets of PIs effort for each of his/her grants and sponsor approved effort. In addition, they will provide other services such as determining whether multiple certifications, cost shares or adjustments should be made prior to the PI certifying.

In addition, the process at CSS is designed to include several layers of review that are done after initial summer appointment setup: prior to any entries into HCM, reconciliations and review of PPS and OPTRS entries to ensure that what was entered is reflected accurately in the payroll distribution and a final audit to reconcile across systems and support documentation. This new tool and process appears to be designed with controls in place to detect data entry issues and to provide adequate support documentation for actions related to summer salary actions.

Although the implementation of these activities for summer 2014 fell outside our audit period, our preliminary assessment of their design is that they appear reasonable to detect routine errors that may lead to appointments exceeding campus or agency limits on federal funds. We note that the benefits of such procedures would however be limited to units who are or will be supported by CSS.