



HHS & NSF Audits of FDP Payroll Certification Pilots

Background - Audits

- HHS & NSF agreement with FDP & OMB to conduct audits at 4 FDP universities
 - NSF: George Mason University (GMU), Michigan Technological University (MTU)
 - HHS: University of California – Irving, University of California - Riverside
- Shared approaches between HHS & NSF
 - Jointly developed and consistent audit plans and methodologies
 - NSF obtained general ledgers for all 4 schools and verified completeness and accuracy of universe of transactions at 3 schools (See UC-Irvine)
 - HHS statistical specialists selected statistically valid sample transactions at all 4 schools for testing to allow for projection of results
 - HHS conducted IT portion of audits at all 4 schools
 - Joint briefings to OMB on results

Objectives of Audits

- Determine whether data from the university's pilot payroll certification system supported labor charges that the University made to its Federal awards and whether the University certified, reported, and claimed labor costs and associated fringe benefits that accurately reflected the actual work its personnel devoted to the Federal awards.
 - Focus on whether change from A-21 to FDP pilot system put Federal funds at increased risk of improper allocations.

Caveat to Discussion

- Key difference between NSF and HHS audits – How many awards are charged for individuals:
 - Personnel costs for NSF awards to universities are generally geared toward stipends for grad students, and most grad students at NSF-funded institutions work on one award at a time. Therefore, almost all of the grad students in the GMU and MTU samples charged their time to one award, or one award plus work-study (supported by timesheets), making for simple 100% allocations on Federal effort certifications.
 - Faculty at the HHS-audited universities generally worked on multiple projects and activities during the year and, thus, allocate time spend among these various projects and activities, including HHS awards. As a results, these universities had more complex allocations of effort/cost.
- This difference impacted the risk assessments (risk that costs were not allowable) and focus of the audits
- While agencies all use 2 CFR 200 as criteria for cost principles, different agencies have different concerns which may result in different audit conclusions



George Mason and Michigan Tech

NSF audit of GMU

- Scope: 9,676 transactions representing \$11.9 million in NSF payroll charges from January 2, 2010 through March 31, 2013
- Identified issues with 21 of the 180 sampled transactions, including failure of GMU to adequately implement key controls related to the pilot system:
 - Annual certifications
 - Bimonthly cost reconciliations
- Identified issues with IT controls over payroll information
- Under normal circumstances, audit would have resulted in questioned costs of \$1.1 million
- Final report at https://www.nsf.gov/oig/_pdf/15-1-017-GMU.pdf

NSF audit of MTU

- Scope: 11,674 transactions representing \$9.6 million in NSF payroll charges from January 2, 2010 through March 31, 2013
- Identified issues with 8 of the 180 sample transactions.
 - Timeliness of certifications under pre-pilot system
 - Changes to salary distributions under pilot system
- Identified issues with IT controls over payroll
- Under normal circumstances, audit would have resulted in questioned costs of \$151K
- Final report at https://www.nsf.gov/oig/_pdf/15-1-023-MTU.pdf

Key takeaways from NSF audits

- Effective implementation of key internal controls is vital to success
 - Formalize and consistently follow institution policies and procedures
 - Create and retain adequate documentation of initial effort allocations as well as any changes to allocations
 - Establish during-the-year reconciliations between budgeted amounts and actual amounts – make sure reconciliations are consistently performed, reviewed, and that documentation is retained
 - Ensure that adjustments are identified and made throughout the year, not just at certification time
- CFO Council’s July 2016 video training series “Uniform Guidance: Promising Practices in Implementation” can be found at <https://cfo.gov/2016/07/05/july-2016-uniform-guidance-promising-practices-in-implementation/>
 - “Panel 4” discusses Personnel Services



Irvine and Riverside

HHS Criteria

- For awards made prior to December 26, 2015:
 - 45 CFR Part 74, which codified the common rules at 2 CFR part 215, and 2 CFR Part 220, which were the cost principles that codified OMB Circular A-21
 - HHS Grants Policy Statement
- For awards made on or after December 26, 2014:
 - 45 CFR Part 75
 - HHS Grants Policy Statement
- Audits at Irvine and Riverside were based on awards made prior to December 26, 2015.

Irvine

How We Conducted This Audit

- Covered approximately \$491 million in costs claimed for reimbursement from January 1, 2010 , through June 30, 2013
- Planned to:
 - gain an understanding of:
 - the pilot PCS and prior effort-reporting system
 - how both processes related to labor costs in the general ledger
 - how labor costs were charged to federally sponsored awards
 - use 2010 data to compare the two processes
 - use statistical sampling to determine whether labor charges was supported by documentation

Reconciliation

Database of general ledger transactions	\$495.1 million
FFR	\$491.3 million
Variance	\$3.8 million*

*Could not confirm variance. Reconciliations done quarterly. Irvine did not track numerous adjustments made each quarter to general ledger (lacked audit trail).

Therefore, neither NSF nor HHS OIGs could ensure that the database of general ledger transactions, which were going to be used for sampling purposes, was accurate and complete.

Time Line: Requests to Reconcile Payroll Costs to FFR

January 29, 2013	June 6, 2013	October 24, 2013	November 1, 2013	November 8, 2013
HHS & NSF OIGs meet with four pilot schools to discuss audit approach	Sent Irvine engagement letter requesting data by 6/14/2013	Presented Irvine with a revised deadline of 11/1/2013	Discontinued fieldwork	Irvine submitted reconciliation

Impact

- We could not determine whether Irvine's pilot PSC provided data that supported labor charges it made to Federal awards.
- We could not determine if Irvine had a valid list of labor transactions from which to select a statistical sample for testing.
- We could not express an opinion on whether Irvine certified, reported, or claimed accurate labor costs and fringe benefits costs.

Take Away

- Regulations for financial management systems (2 CFR 215.21(b)) call for accurate, current and complete financial results; effective internal controls; and accounting records that are supported by source documentation.
- Basic things to do to meet this requirement:

Policies in place, staff trained, implementation monitored, deviations corrected

Audit trails created and retained for approvals, transactions, updates to financial documents

Accountability: must be able to demonstrate how you have used your resources

Reconciliations

Documentation: should be readily available for examination, properly managed and maintained

Integrity, culture, tone at the top

Authorization: transactions and activities are authorized and executed by person acting within their span of control

Information security: access to software and documents restricted to authorized individuals

Riverside

How we Conducted this Audit

- Covered about \$17.2 million in Federal salary and wage costs claimed for reimbursement from January 2, 2010, through March 31, 2013.
- Audited a stratified random sample of 180 salary and wage transactions totaling \$386,281.
 - 83 transactions for Effort-Reporting system
 - 97 transaction for PSC
- Reviewed IT access controls safeguarding the pilot PSC and the systems that support it.

What we Found

- Effort-reporting system: could not confirm that payroll costs had been appropriately allocated to Federal awards
 - 89 errors out of 94 transactions tested—95% error rate
- Pilot PSC: provided less accountability than effort-reporting system
 - 40 errors out of 86 transactions tested—47% error rate
- \$11.7 million in salaries and \$5.9 million in F&A costs at risk
- IT controls did not always ensure the security of data (labor charges)

Effort-Reporting System

PERSONAL ACTIVITY REPORT

Employee Name

Budgeted
(automatically populated)

% Salary

Sponsored projects 18

-##### -## NIH

All Other Functions $\frac{82}{100}$

Completed by Employee or Responsible Official

Sponsored Projects 30

All Other Activities 70

Signature

(certifying that report represents reasonable estimate of actual effort expended on each sponsored project and each category of effort)

- We did not have enough information to verify that salaries are reasonable in relation to the work performed.
- Summarizing nonsponsored activities into a single category does not provide the transparency needed to verify the percentage of effort spent on nonsponsored activities such as instruction, departmental administration, and departmental research.

Payroll Certification System (PCS)

- No suitable means to verify salary charges were reasonable in relation to work performed.
- Salary costs may not have represented actual costs.
- PIs allowed unsupported adjustments after grant expenditures were reported.
- PIs inappropriately reclassified salaries and direct costs.
- PIs made costs transfers that were undocumented and unapproved.
- No documentation provided that salary charged did not exceed 100% of an employee's salary.
- Grants were charged for unsupported payroll transactions.
- Verifying salary charges under the prior effort reporting system more readily achieved than under the pilot PCS.

Five Basic Questions I Ask My Auditors

- Bottom line, what are we concerned about?
- How good is the criteria?
- What is the impact?
- What are the risks?
- What are the mitigating controls and strategies?

What are We Concerned About?

- No audit trail to verify:
 - the allocation of payroll costs
 - salary charges were reasonable in relation to the work performed
 - actual payroll costs, instead of budgeted costs, had been charged
- Administrative (F&A) costs classified as direct costs
- No or insufficient documentation
 - Unsupported adjustments made after grant expenditures were reported to Federal government—adjustments not reported
 - Undocumented and unapproved cost transfers
 - Insufficient information for PIs to certify payroll charges
 - Payroll transactions not supported by an effort report or a Payroll Certification form
- Poor management oversight
- Data not secure

How Good is the Criteria?

Issue	A-21	45 CFR 75 (HHS Only)
No Audit Trail	J.10.b and J.10.c	75.430 (i)(1)(i), (iii), (vii), (viii)
Misclassified Costs	F.6.b(2)	75.412 and 75.413(c)
No Documentation	C.4 and 45 CFR 74.21(b)(7) HHS-GPS*	75.430 (a)(3) & 75.430 (i) 75.403 (g)
Poor Management Oversight	C.4.d(2)** HHS GPS: Organizational culture, policies and procedures, management controls, other I/Cs	75.303(a) Maintain I/C 75.303(b) Comply with laws/regs 75.303(c) Evaluate and monitor compliance with laws/regs HHS GPS
Data not secure	HHS GPS: other I/Cs	75.303(e) Safeguard PII

*Cost transfers approved and documented and a revised FSR must be submitted when an overcharge is discovered.

**Segregation of duties – no one person has complete control over all aspects of a financial transaction.

What is the Impact?

- HRSA (Health Resources and Services Administration) grantee did not :
 - track and account for its grant expenditures separately from Federal and non-Federal operating expenditures (45 CFR §§ 75.302(b)(2) & (3))
 - reconcile actual grant expenditures to budgeted costs used to support its claim for reimbursement (45 CFR § 75.430(i)(1)(viii) and (45 CFR §§ 75.302(b)(5))
 - maintain documentation that supported certain grant expenditures. (45 CFR § 75.403(b), (45 CFR §§ 75.302(b)(3) and (45 CFR § 75.303(b))
- We could not determine whether \$8,000,453 in claimed costs were allowable.
- These deficiencies occurred because the grantee did not maintain a financial management system that provided for accurate, current, and complete disclosure of the financial results of its grants.

What is the Impact?

- We recommend that HRSA:
 - require the grantee to refund \$8,000,453 or work with the grantee to determine what portion of these costs claimed were allowable;
 - ensure that the grantee develops and maintains a financial management system that provides for the accurate, current, and complete disclosure of the financial results of its grant funds, including:
 - documenting a comparison of actual expenditures with budget amounts
 - maintaining records that support the distribution of employees' salaries and wages among specific activities and all expenditures charged to grant awards

What is the Risk?

- University of Florida
 - \$20 million settlement to resolve allegations that it improperly charged HHS for salary and administrative costs on hundreds of federal grants.
 - The university overcharged the government for the salaries of its employees without documenting their contributions, and inflated the costs of services performed by a contractor.
 - The university sought reimbursement for equipment and supplies not covered by the grant.
 - Took place from 2005 to 2010, during which time the university received about \$1 billion in grants from HHS.
 - We identified these and many other issues in 2009 when the university's financial system failed to consistently verify the amount of time and expenses employees charged.
 - To cover the settlement, the university planned to use investment earnings and other money that would have been invested in research.

What is the Risk?

- **Strategic risk** – risk of not accomplishing objectives, failure to effectively manage a desired reputation, failure to develop a culture that reflects on core values, behaviors, and decisions (tone at the top).
- **Financial risk** – involves a financial loss to an organization.
- **Operational risk** – various risks that can arise from ordinary business objectives (fraud risk, personnel problems, process execution, stakeholder satisfaction, communications).
- **Compliance risk** – risk of failing to comply with laws and regulations (questioned costs, criminal or civil claims, damage to reputation).
- **Informational risk** – risk associated with the accuracy and timeliness of information needed to support decision-making (accounting, cyber security, data integrity, data relevance, systems access)

What are the Mitigating Controls and Strategies?

- The non-Federal entity must (45 CFR 75.303)
 - Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.
 - These internal controls should be in compliance with (documents for best practices):
 - GAO's Standards for Internal Control in the Federal Government (Green Book)
 - COSO's* Internal Control Integrated Framework

*Committee of Sponsoring Organizations of the Treadway Commission

What are the Mitigating Controls and Strategies?

- Strategy
 - For HHS, comply with 45 CFR 75 – many of the provisions are internal controls
 - Use the GAO Green Book and COSO's Internal Control Framework as guidance
- Why? Internal controls protect:
 - The federal government
 - Your school or university
 - The PI or other certifying individual
 - PIs we interviewed told us that making changes to estimates was difficult, and in some cases not allowed.

Questions?