

OIG Panel Session – Compensation Compliance under the Uniform Guidance (UG)
COGR – June 2018
Moderator’s Notes

Laura Rainey, Audit Manager and National Single Audit Coordinator, NSF Office of Inspector General, and Lori Pilcher, Regional Inspector General for Audit Services, Atlanta, HHS OIG, discussed the Federal Demonstration Partnership (FDP) Payroll Certification Pilots and compensation compliance under the Uniform Guidance at the June 7-8 COGR meeting. Lisa Mosley, Executive Director, Office of Sponsored Projects, Yale University, and Co-Chair of the University Cohort on Alternatives to Effort Reporting served as moderator.

Effort reporting has long been a challenge for Institutions of Higher Education (IHEs) as it introduces the concept of tracking ‘time’ in an environment where researchers don’t use time cards, and their work is recognized in the regulations as being inextricably intermingled among research, teaching and service. Effort reporting has long been reported and identified as one of the most burdensome activities in research (dating as far back as a 1969 article published in *Science*). More recently, it was specifically called out in the preamble of the Uniform Guidance, several national reports by the National Science Board, National Academies of Science, and the Federal Demonstration Partnership faculty burden surveys of 2005 and 2012. As we heard from OMB at the June COGR meeting, the President’s Management Agenda continues to push for compliance with a focus on efficiencies.

As part of the FDP pilots, HHS and NSF OIG audited the pilot school’s project certification systems. Laura Rainey (NSF OIG) was involved with the audit work at Michigan Tech and George Mason University. Lori Pilcher (HHS) was involved in the audits of UC-Riverside and UC-Irvine.

The panel discussion centered on implementing strong internal controls and ensuring compensation compliance. Panel questions and OIG responses are summarized below. Slides from the panel discussion are available here: [HHS/NSF Compensation Compliance Slides](#).

Laura Rainey (NSF OIG) noted that the release of the Uniform Guidance overtook the completion of the FDP Payroll Certification Pilots and that the language in the UG makes alternatives allowable.

Lisa reminded the audience that the audits were conducted under OMB circular A21. The examples of how to perform the after-the-fact review control were removed from the Uniform Guidance and the concept of ‘effort reporting’ no longer exists. All 4 pilot schools have continued their payroll certification processes to meet the compensation compliance requirements, and more schools are transitioning to an alternative model. Further, there are several major research institutions who have never utilized traditional effort reporting under A21 yet passed many audits – single audits, agency specific and OIG.

The questions below are from the panel discussion.

1. Given the UG’s focus on reducing burden while maintaining the effective and efficient use of federal funds by grantees, how do you think the audit community could best partner with agencies and universities to achieve that goal?

Response: Auditors do not set guidance. They only perform audits, which will be done in accordance with the published regulations/policy/guidance. Auditors must maintain their independence.

2. Can either of you comment on the inconsistencies among the audit community (between OIGs, Single Audits, etc.) regarding regulatory interpretations of the standards for documenting compensation costs or auditor opinions to the sufficiency of internal controls at an institution? Can you address the research institutions' concerns that there could be regulatory creep and auditing to a standard that is beyond what is called for under the Uniform Guidance?

Response: There was a discussion during the slide presentation that HHS awards, in general, are more complex, with faculty being charged across multiple sources while NSF awards often support 1 faculty member and/or graduate student. [NOTE: It is recognized that this may have been true at the FDP Pilot Schools, this is not an accurate assessment of NSF awards at all institutions.]

3. Is there a plan or process for a forum to train/align with the single audit community regarding expectations on the required documentation of compensation costs?

Response: Auditors audit to published guidance that includes the UG, Agency specific rules, and the Compliance Supplement. Auditors will use their professional judgement as needed when interpreting policy. The OIG does not provide training for single auditors, although NSF is involved with a Single Audit Round Table.

4. OMB FAQ 303-3 (Previously Q III-4) "Should vs. Must and the Green book" clarifies that while "non-federal entities must establish and maintain effective internal controls over Federal awards, there is no expectation or requirement that the non-Federal entity document or evaluate internal controls prescriptively in accordance with these three documents, or that the non-Federal entity reconcile the technical differences between the three documents." The compliance supplement also states that too many controls may result in inefficient operations and the cost of those controls should not outweigh their benefit. And, part of the audit mission is to promote economy and efficiency. Given these factors,

- a. Can you please describe how internal controls and COSO will be incorporated as part of your audit scope of planned activities in the upcoming year?
- b. Can you describe the approach and testing plan for audits on internal controls?
- c. Is promoting economy and efficiency incorporated in the audit scope? Or, is it only limited to the detection of fraud, waste, or abuse?
- d. Will you address processes and internal controls that are overly burdensome and more prescriptive than required by the regulations and their impact on the efficient use of federal funds/performance?

Response: Grantees should pay attention to the compliance supplement (and Yellow book, COSO Green book, etc.) and it is recognized that IHEs have additional flexibility afforded by the UG for 200.430. The OIGs highlighted the importance of documentation. Auditors are charged with all questioned costs (fraud, waste, abuse), as well as with economy/efficiency. The OIG's indicated that this makes their jobs more challenging and there is a goal to incorporate more economy/efficiency in their audit plans. The OIGs also suggested that institutions use their payroll systems to detect and investigate anomalies.

There was also a brief discussion and acknowledgement that no amount of internal controls can prevent fraud.

5. Do you expect compensation audits to be a high priority on the audit schedule for the upcoming year? Will compensation system reviews be part of your audit scope? Could NSF comment on how “data analytics” could be utilized in their approach to upcoming audits?

Response: Compensation audits are not a priority for DHHS OIG at this point in time. NSF OIG uses a risk assessment approach, via data analytics against the general ledger for a specific period of time (normally 3 years). The NSF OIG then looks to identify areas of risk and potential concerns. Compensation or personnel audits may not be the sole focus for any NSF OIG audits – but compensation costs will be reviewed during the overall audit, particularly where analytics suggest risk/weak controls.

6. OMB specifically recognized that alternatives methods to effort reporting to satisfy the after-the-fact review requirement may reduce burden and removed the word “effort.” Both [NSF](#) and [NIH](#) have recently published statements that alternative methods to meet the after-the-fact review requirement are acceptable. Can you speak to the thoughts of the IG community on this?

Response: NSF OIG and DHHS OIG reiterated that they agree with the agency specific guidance already issued by NSF and NIH that ARE acceptable, under the UG. They both stressed that costs must be supported by a strong system of internal controls, per the UG.

7. For HHS: HHS OIG has audit oversight for a number of different agencies and research grants at IHEs are a smaller piece of that scope. Can you please speak to how this may require an adjusted audit approach for compensation compliance given the flexibilities afforded specifically to IHE’s within the standards for documenting personnel expenditures? (e.g. IHE defines its own IBS (1)(iii), IHE records may reflect activities as a % of a total (ix), and activities are inextricably intermingled – a precise assessment of factors that contribute to costs is not feasible nor expected (x).

Response: HHS referenced the importance of documentation and made reference to the importance of an audit trail for all activities in order for them to be able to determine that charges to federal awards are appropriate. Lisa countered that the requirement to separately account for faculty activities (teaching and service) is a hotly contested topic and subject to interpretation.

8. Several schools who have transitioned to utilizing project payroll certification/allocation of IBS as the after the fact review methodology have reported that PIs have a greater understanding of the process and what they are actually certifying/reviewing which supports the integrity of the overall system of internal controls. Given this, can you speak to the importance of training, education, and understanding of the processes being tested as it relates to an audit?

Response: Understanding of all parties involved in the process is key to a strong system of internal controls.

9. For HHS: The NSF audit resolution process is fairly transparent to the community and that has created a collaborative resolution process. Can you describe the audit resolution process within HHS and thoughts about creating a more transparent process similar to NSF?

Response: HHS has many operating divisions vs. NSF which is just one agency. HHS IG will report to the appropriate operating division audit liaison for resolution. After review, the operating division reports back to HHS OIG on the outcome.

10. The NSF OIG recently issued two audits on Single Audit quality. Do the results of the quality control reviews NSF performs on audit firms who perform single audits influence what you may advocate for in the Compliance Supplement? Does HHS have a similar review process of audit firms?

Response: Yes, HHS has a similar process.

11. What do you consider to be the most critical documentation requirements for compensation compliance given that 200.430 focuses on the compensation charged, internal controls to ensure the federal government is not overcharged for the work performed, and that examples of how to perform the after-the-review requirement are not included in the Uniform Guidance?

Response: The OIGs want to see monitoring activities and changes documented (somewhat addressed in the slide presentation).

12. Given the costs incurred by both entities (OIG and the auditee), are there any best practices that both entities could implement to ensure a smooth, efficient and effective audit engagement?

Response: Both HHS and NSF highlighted the importance of communication and timeliness of responses.