

By Charlene Blevens

The Offices of Inspector General at NSF and the Department of Health and Human Services (HHS) are continuing their audits of the implementation of pilot payroll certification systems. This was previously agreed to by the Office of Management and Budget (OMB). HHS OIG is conducting the audits of the two University of California institutions, University of California – Irvine; University of California – Riverside, while NSF OIG is responsible for the audits at Michigan Technological University and George Mason University (GMU). After the four individual reports have been prepared and the audits are completed a capstone report will be prepared to provide overall results and summarize issues identified at all four universities. Audit reports have been issued on two of the four audits.

HHS OIG released its audit of the University of California in December 2014 where it determined that the certification system could not be assessed. NSF released its report, dated July 31, 2015, of George Mason University. This report presents the findings at GMU.

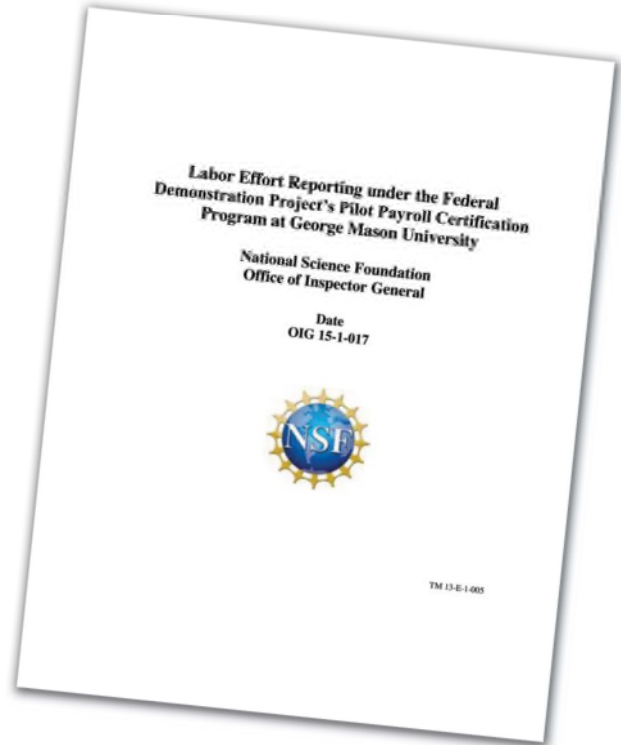
The payroll certification pilot started at GMU in January 2011. The audit was announced on March 11, 2013 with an audit scope of January 2, 2010 through March 31, 2013. The GMU report contains two findings: 1) internal controls over the support for labor charges to NSF awards, and 2) information technology controls over the protection of payroll information. The audit scope spanned labor charges under both the effort reporting system and the pilot payroll certification process so that the audits could develop an understanding of both systems, as implemented by GMU.

Effort Reporting System

For salaried employees, the effort reporting process at GMU began with entering information in the payroll allocation system using an appointment letter showing the salary level and award account to be charged. The award information, along with knowledge of all other employee workload cost categories, was used to establish the percentage of effort in the payroll allocation system with the total allocation equaling 100 percent. The effort can be amended using a form as needed, for changes in workload effort or changes in projects/activities. Researchers, (frequently graduate students) typically only work on one award at a time, so their effort was not often distributed across multiple awards or activities at the university. At the end of each semester, a printout of each employee's distribution of effort signed by either the employee, or someone with first-hand knowledge of the employee's effort.

Pilot System

George Mason's process for initiating research salary charges was the same under the pilot as under the prior effort reporting process. The difference is that GMU's annual certifications included individual salaries (dollar amount and percentage) charged to the respective awards for all employees who worked on the project during the reporting year. The PI is solely responsible for certifying annually that salary and wage expenses are "reasonable in relation to the work performed" for all employees



included on the report. This certification meets the requirements stated in the FDP pilot as well as OMB Circular A-21 requirements under a "Plan-Confirmation" method of payroll distribution. However, the certification does not report effort on other awards the individual worked on during the reporting period, which the audits found as a risk. The concern was whether the pilot system's shift away from certifying 100 percent of individual employees' efforts put federal funds at an increased risk of improper allocation.

An additional control in the pilot process that is not part of the prior effort reporting process is a requirement for bimonthly reconciliations of award ledger and expense data. The department administration performs the reconciliations and certifies that all charges and credits to the fund or organization have been reviewed and are supported by appropriate documentation.

Audit Results

1. GMU Needs to Strengthen its Internal Controls to Ensure Labor Charges to NSF Awards are Adequately Supported

The most prevalent issue the auditors found in examining payroll transactions was late certification of effort under the pilot system. The auditors' position was that the late certifications resulted in GMU not having timely support for payroll expenses for which it had already been reimbursed. When reports are certified months, and in some cases years, after the work

is done, it puts the reliability and accuracy of the supporting documentation at risk. In addition, the auditors found that GMU was not completing bimonthly reconciliations timely. Because the bimonthly reconciliations provide interim verifications between the longer timeframe of the annual certifications, timely completion of the interim checks improves confidence in the annual certification of labor charges under the pilot system.

The auditors stated that the majority of the problematic transactions were the result of GMU failing to follow its own internal policies and procedures. Although GMU's policy required it to transfer costs certified more than 120 days late from the sponsored project, the auditors did not find any instances when the university credited NSF for costs charged in violation of its own policy.

Funding change forms were used in both the effort reporting process and in the pilot to make changes during the course of a project. The auditors noted only one error on the 14 change forms reviewed. The error related to a transfer of funds, from a non-sponsored account onto an NSF award account in order to expend the available funding under the award. GMU provided no support that the charge involved actual work performed on the award.

The auditors' review of 14 bimonthly reconciliations under the payroll certification system found only two that were completed correctly. Of the remaining 12, nine were not signed by both the preparer and the approver, two were certified late, and one was certified prior to the end of the reporting period. As a result of these problems, the university lacked assurance that ongoing expenditures under the pilot payroll certification system were being made for the intended purpose. This interim control is critical to assuring that the annual certifications are accurate.

A primary concern of the audit was to determine whether the fact the pilot system does not require certifying 100 percent of each employee's effort increased the risk of improper allocations of payroll. The auditors found that full allocations remain recorded and available within GMU's systems. Nonetheless, when PIs certify the salaries charged to their awards, they do not have records of full payroll allocations for employees who worked on their projects. Visibility over full payroll allocations provides greater assurance that project costs are accurate. Therefore, making full allocations available to PIs would be useful in assuring payroll charges to federal awards are accurate. Additionally, accounting for full allocations of employees' time could be an important control to help ensure that overcharges and inaccurate charges do not occur.

2. GMU Needs to Strengthen its Information Technology Controls to Protect Payroll Information Auditors identified the following areas in which IT controls needed to be strengthened:

The auditors found that GMU did not adequately manage access controls as required by university policy. The stated that this weakness could permit unauthorized users to obtain or alter sensitive information and gain access to financial records. Examples cited were that 701 accounts had passwords that had not been changed within 210 days of the auditors' scan, and 140 passwords had not been changed in more than 1,000 days, while the accounts remained unlocked.

Auditors found that some adjunct faculty had expired passwords, but their accounts had not locked and they still had access to the system. Auditors found 146 accounts that had expired but were not locked; of these 132 accounts had been expired since 2011. GMU officials told us that they plan to institute a supplemental reconciliation process to ensure that accounts are locked in a timely manner.

The auditors also found that GMU did not install security patches to the Banner Oracle database in a timely manner and did not update the risk assessment for Banner to reflect major architectural changes to the system, as required by university policy.



Late certifications under the pilot system was the most prevalent issue identified in the transactions sampled. For example, certifications of labor reports we found to be in error were an average of 224 days late.

The auditors stated that if institutions use the pilot, they need to ensure that they have strong internal controls to ensure the payroll charges are adequately supported. If schools are going to certify the documentation less frequently, they have to be more diligent in ensuring that the control procedures are communicated and adhered to on a consistent basis. Additionally, maintaining the full allocation of payroll to each individual's activities is important to ultimately ensure adequate support for Federal labor charges. Having direct visibility of each employee's full payroll allocation, including percentage allocations assigned to other awards or projects, is important to a PI to ensure the percentage assigned to his or her project is reasonable. Accounting for full allocations of employees' time could be an important control to help ensure that overcharges and inaccurate charges do not occur. There are challenges with any payroll allocation system, and strong internal controls are the key to ensuring taxpayer funds are appropriately charged and adequately protected from misuse and abuse.

GMU officials generally agreed with the findings and recommendations, and acknowledged that institutions under payroll certification systems must have strong internal controls to ensure payroll charges are adequately supported. ■



Charlene Blevens has worked in the financial area in both the public and private sector in various capacities for more than 25 years with more than 13 years' experience at universities in Research. She is the author of the *Summary of University Audits, Settlements and Investigations* located on the Cost Accounting Listserv at www.costaccounting.org. Charlene is a certified public accountant, certified research administrator, certified fraud examiner and holds an MBA from the University of Houston.