



Item: AF: I-2

**AUDIT AND FINANCE COMMITTEE**  
Wednesday, June 15, 2011

**SUBJECT: REVIEW OF AUDITS: FAU 10/11-4, AUDIT OF TIME AND EFFORT  
REPORTING FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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**PROPOSED COMMITTEE ACTION**

Information Only

**BACKGROUND INFORMATION**

As a recipient of federal research funds, the University is required by OMB Circular A-21, *Cost Principles for Educational Institutions*, to periodically certify the percentage of effort spent on research projects. The University uses a Banner system module for its quarterly time and effort certifications.

Primary objectives of the audit were to determine whether:

- Active grants were identified and subjected to federal guidelines and University policies and procedures for accurate reporting of time and effort spent on research projects; and
- Research personnel were maintaining appropriate documentation to support the percentages of effort reported.

One recommendation was made to enhance the level of documentation supporting certifications.

**IMPLEMENTATION PLAN/DATE**

Management has agreed to implement the recommendation by July 1, 2011.

**FISCAL IMPLICATIONS**

Not Applicable

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**Supporting Documentation:** Audit Report FAU 10/11-4

**Presented by:** Mr. Morley Barnett, Inspector General

**Phone:** 561-297-3682

Report No. FAU 10/11-4  
Report Issue Date: May 5, 2011

FLORIDA ATLANTIC  
UNIVERSITY™

*Office of Inspector General*

Audit Report: *Time and Effort Reporting*  
For the Quarter Ended September 30, 2010

Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

**REPORT ON THE AUDIT OF  
TIME AND EFFORT REPORTING**

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MEMORANDUM

TO: Dr. Mary Jane Saunders  
President

FROM: Morley Barnett   
Inspector General

DATE: May 5, 2011

SUBJ: AUDIT OF TIME AND EFFORT REPORTING

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of the time and effort reporting function at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made one recommendation to address our current finding, and management's response has been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of our recommendation by management.

Please call me if you have any questions.

cc: University Provost  
Senior Vice Presidents  
Vice Presidents  
College Deans  
Director, Research Accounting  
FAU BOT Audit and Finance Committee  
Inspector General, Florida Board of Governors  
Florida Auditor General

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## EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of the time and effort reporting function at Florida Atlantic University for the quarter ended September 30, 2010. Primary emphasis was placed on evaluating the effectiveness of the University's time and effort reporting system to meet federal research reporting requirements for select sponsored grants during the period under review.

Division of Research records indicated there were 668 active grants as of 9/30/10, from which we selected a sample of 20 sponsored grants (ten Federal, two Federal flow-through, one FAU Foundation, five private, and two State) on a judgmental basis for review from the following academic units:

*COLLEGE OF SCIENCE* ■ *COLLEGE OF ENGINEERING/COMPUTER SCIENCE* ■ *COLLEGE OF MEDICINE* ■ *COLLEGE OF EDUCATION* ■ *COLLEGE FOR DESIGN AND SOCIAL INQUIRY* ■ *OCEAN ENGINEERING/TECHNOLOGY AND* ■ *HARBOR BRANCH OCEANOGRAPHIC INSTITUTE.*

Detailed testing was performed for 24 of 75 employees in the sampled academic units who certified percentages of effort during the audit period.

Our audit objectives were to determine whether:

- All University research grants had been identified and were subject to time and effort reporting requirements as outlined in Section J10 of Office of Management & Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, consistent with established University policies and procedures; and,
- Research personnel were maintaining appropriate documentation in support of their percentages of effort reported for sponsored projects.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on samples of documentation supporting employee effort certifications for select sponsored grants in order to determine whether control procedures were operating effectively.

Based on the audit work performed, we are of the opinion that the evaluated time and effort reporting function was being conducted in general compliance with Section J10 of OMB Circular A-21, applicable University policies and procedures, and sound business practices. However, we did identify an opportunity for improvement related to maintaining documentation which reasonably supports the percentages of effort certified quarterly.

The details of the finding, as well as the suggestions for corrective action, can be found in the Comments and Recommendations section of this report.



Dr. Mary Jane Saunders  
President  
Florida Atlantic University  
Boca Raton, Florida

May 5, 2011

Dear President Saunders:

#### SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2010/11, we have conducted an audit of the time and effort reporting function at Florida Atlantic University for the period ended September 30, 2010. Primary emphasis was placed on evaluating the effectiveness of the University's time and effort reporting system to meet federal research reporting requirements for select sponsored grants during the period under review.

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We obtained an understanding of the University's time and effort reporting function by reviewing OMB Circular A-21, Section J10, *Compensation for Personal Services*, written policies and procedures, interviewing key personnel, performing analytical reviews, and analyzing key internal controls.

Our assessment of compliance with applicable laws, rules and regulations, and established policies and procedures was based on reviews of pertinent supporting documentation for judgmentally selected samples of effort certifications reported on the Banner Finance system. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls and assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## BACKGROUND

Section J10 of OMB Circular A-21 requires that individuals with firsthand knowledge of research activities periodically certify, for reasonableness, the percentage of time spent on federally-funded research projects in relation to total other compensated University activities for faculty, graduate research assistants, and support staff. University time and effort training literature, among other things, provides guidance on acceptable types of documentation used for "suitable means of verification" as part of official time and effort certifications.

Effective with the 2010 calendar year, University researchers began quarterly certifications through use of an *after-the-fact* Banner Finance time and effort reporting system for all federal, state, and private grants. Prior to the initial certifications, the Division of Research, in coordination with the University's Research Council, developed procedures and provided training for academic administrators as well as principal investigators. On-going training is currently offered on a one-on-one or small group basis.

In order to be eligible for sponsored awards, the University must ensure that salaries and wages charged to sponsored research programs are allowable, allocable, reasonable, and consistently treated. Charges to sponsored projects are initially based on planned assignments, as detailed on the employee's Personnel Action Form, but through a payroll redistribution process, adjustments may become necessary to reflect actual effort if assignments materially differ from activity records. As a fiduciary responsibility to the sponsor, principal investigators are expected to track and reconcile the committed effort throughout the life of their awards.

For the quarter ended September 30, 2010, Division of Research records indicated that there were 669 effort report certifications completed for sponsored grants. Included in these projects were an estimated 555 research faculty, staff, and graduate assistants with budgeted compensation of \$22.4 million for the 2010/11 academic year.

## COMMENTS AND RECOMMENDATIONS

### **Current Findings and Recommendations**

#### Deficiencies Related to Maintaining Supporting Documentation for Effort Certifications

Quarterly effort certification reports indicate the percentages of the total effort that are dedicated to sponsored projects in relation to all University activities, and, in accordance with OMB Circular A-21, requires certification by an individual who has firsthand knowledge or “suitable means of verification” of the employees’ activities that the reported effort percentages are accurate. At a minimum, “suitable means of verification” should be supported by an appropriate form of written documentation. The University’s time and effort certification policy (effective Feb. 8, 2010) states that “the responsible official certifying an effort report using suitable means shall maintain a written description of what was used as the suitable means of verification for future audit purposes”. Documents that can be used as “suitable means of verification” include, but are not limited to, journals, employee time records, schedules, logs, and lab notebooks.

Our review of a sample of 24 employees (*principal investigators, lab assistants, graduate students, and related employees*) selected from the sample of 20 grants (*federal, state, and private*) who completed effort certifications for the quarter ended 9/30/10, revealed the following deficiencies regarding compliance with OMB Circular A-21 certification requirements and/or established University time and effort policies and procedures:

- Principal investigators did not maintain a distinct written description of the “suitable means of verification” in support of the certified percentage of effort reported for 16 of 24 employees;
- For another six of 24 effort certifications, employees were unable show how their effort documentation supported or linked with their certified effort percentages;
- Documentation for two of 24 effort certifications was not readily provided for our review; it was compiled by the employees during our audit field work; and,
- Principal investigators could not provide effort documentation to support the certified effort percentages reported for themselves and one of their research assistants for three of the 24 effort certifications reviewed.

#### Recommendation No. 1

In order for University researchers to better conform their time and effort reporting practices to current policies and procedures and OMB Circular A-21 *after-the-fact* reporting requirements, we recommend the Division of Research provide additional guidance to better support reporting compliance as follows:

1. Develop a written statement describing the “suitable means of verification” to be used for effort reporting; and,

2. Provide additional clarification on how to best link the suitable means of verification documents to the percentages of effort certified.

In our opinion, implementation of this recommendation will help preserve the integrity of the University's research projects by reducing the risk of potential loss of federal funding, imposition of fines, and damage to institutional reputation because of non-compliance with A-21 effort reporting requirements.

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### **Management's Response**

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#### **Action Plan:**

1. The policy inadvertently stated that the certifiers will maintain a written description of what was used as the suitable means of verification. OMB Circular A-21 does not require a separate description of the suitable means of verification. While the suitable means of verification should be documented, a separate description of what is used as suitable means of verification is not required and will be too restrictive. We will update the policy to remove the requirement for a written description.
2. As the suitable means of verification could include different items such as logs, faculty appointments, course syllabi, etc., clarification on how to link the suitable means of verification to the certified may not be possible. However, we will change our requirements to state that the documentation used as suitable means of verification should be sufficient and consistent to support a reasonable estimate of effort expended.

**Implementation Date:** July 1, 2011

**Responsible Auditee:** Dr. Edwin Bommel - Director, Research Accounting

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#### **Prior Audit Recommendations**

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three years, our office has not conducted any audits related to the time and effort reporting function. Accordingly, a follow-up on prior audit findings is not applicable.

### **CONCLUSION**

Based on the results of the audit tests performed, it is our opinion that the evaluated time and effort reporting function was being conducted in general compliance with OMB Circular A-21,

University policies and procedures, and sound business practices. However, we believe our recommendation to consistently maintain supporting documentation is cost-beneficial to implement and will serve to enhance accountability in the quarterly effort certifications process.

We wish to take this opportunity to thank personnel at the colleges and the Division of Research for their kind cooperation and assistance which contributed to the successful completion of this audit.

A handwritten signature in cursive script, appearing to read "Morley Barnett".

Morley Barnett, CPA, CFE  
Inspector General

Audit Performed By: Ben Robbins, CPA