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Office of Internal Audit

September 26, 2016

Dr. W. David Watts, President  
The University of Texas of the Permian Basin  
4901 E. University Boulevard  
Odessa, Texas 79762

Dear Dr. Watts:

We have completed our audit of *Effort Reporting and Certification* policies and procedures for the University of Texas of the Permian Basin (UTPB). This audit was performed as part of our FY 2016 Audit Plan, which was approved by the UTPB Audit Committee on July 16, 2015.

The objective of our audit is to determine if effort reporting and certification procedures at UTPB, in regard to sponsored programs, are reasonably accurate and in conformance with federal laws and cost principles, grant requirements, and UT System and UTPB policies. Our audit was conducted in accordance with guidelines set forth in the UT System Policy UTS129 and the *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing*.

Overall, the written policies and procedures of UTPB generally conform to federal and UT System requirements, except in regard to additional compensation. However, the results of our audit revealed some serious internal control deficiencies. We noted that *actual procedures* frequently do not lead to reasonably accurate effort reporting and certification, and, consequently, are not in conformance with federal laws and cost principles, UT System policy, and UTPB's own internal policies. This resulted in one priority finding, two high risk findings, and one medium risk finding, as detailed in the attached report.

We wish to express our appreciation to the management and staff of UTPB for the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Spencer".

Glenn Spencer, CPA  
Institutional Chief Audit Executive

cc: Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs  
Dr. Juli Ratheal-Burnett, Assistant Vice President for Research  
Mark McGurk, CPA, Vice President for Business Affairs

# **The University of Texas** of the Permian Basin



## **Effort Reporting and Certification - Audit Report**

**August 2016**



**Office of Internal Audit  
4901 E. University  
Odessa, Texas 79762**

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## **Executive Summary**

The UT Permian Basin (UTPB) Office of Internal Audit has completed its audit of effort reporting and certification in relation to sponsored programs at UTPB. This audit was performed as part of our FY 2016 Audit Plan, which was approved by the UTPB Audit Committee on July 16, 2015; and was conducted in accordance with guidelines set forth in UTS129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The purpose of our audit is to determine if effort reporting and certification procedures at UTPB, in regard to sponsored programs, are reasonably accurate and in conformance with the Federal law and cost principles, grant requirements, and UT System and UTPB policies.

During the course of our audit we noted the following, which resulted in one priority finding (Finding No. 1), two high risk findings, and one medium risk finding:

- Multiple individuals that expended effort on sponsored programs did not have their total effort certified.
- Some individuals received additional compensation on a long-term or ongoing basis. However, there is no written policy governing the granting of additional compensation for work on sponsored programs, as required by Federal law.
- We noted two instances where the amount of additional effort is high without a commensurate release from duties.
- One individual received additional compensation of \$49,000 in a lump sum. This was granted retroactively, from the most recent time period and dating back to 2½ years in arrears.
- A conflict of interest exists within the Office of Graduate Studies and Research.
- One grant where the PI did not meet the required minimum effort level.

## **Background**

The Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, has set forth the cost principles that institutions of higher education have had to follow in expenditures of federal funds in Sponsored Programs. OMB A-21 stipulated that institutions of higher education must have a payroll distribution system that allows salaries, wages and fringe benefits paid under federal grants, contracts, or other agreements, to be properly allocated; and that confirmation is made by the institution that individual salaries, wages and fringe benefits paid under federal awards are appropriate to the award, and that the labor charges documented were actually incurred on the projects and activities.

Consequently, it has been the policy of UT System (listed previously under UTS Policy 163) to comply with federal guidelines regarding effort reporting and certification, referred to in the federal costing principles as payroll distribution confirmation. Federal and State agencies, private foundations, organizations, industry, nonprofit organizations, and other organizations provide significant funding to

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enable the UT System to conduct instruction, public service, research, and training under outside-funded sponsored programs. Effort reporting and certification policies, supported by detailed procedures, are necessary to ensure that the salaries, wages, and fringe benefits charged to these sponsored programs are allocable, allowable, consistently treated, and reasonable. Under UTS 163, each institution has been required by UT System to have an electronic online effort certification system that meets the requirements of this Policy. UTPB uses an electronic reporting system (ECRT) as required by UTS 163.

It should be noted that the OMB published on 12/26/2013 its *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, commonly referred to as “Uniform Guidance”, which establishes these requirements as federal law, replaces the administrative and accounting rules previously found in OMB Circular A-21, and is applicable to awards made on or after 12/26/2014. The purpose of this guidance is to streamline and consolidate guidance previously contained in a number of OMB Circulars, including A-21. Recently, UT System personnel and key individuals from UT institutions have met to discuss methods to implement the requirements under Uniform Guidance.

It should also be noted that current UT System and UTPB effort reporting and certification requirements are still permissible under Uniform Guidance. Some of the UT institutions have indicated that they have adopted, or will be adopting policies, procedures and internal controls which will conform to Uniform Guidance requirements, and plan to implement those procedures and controls effective with the beginning of the 2016-17 fiscal year. Other institutions have indicated that they will continue with traditional effort reporting and certification procedures for the time being. At the time of the issuance of our draft report, UTS 163 was still in effect. Since that time, UTS 163 has been deleted while UT System develops a new framework for compliance with federal requirements under Uniform Guidance. For the purposes of this audit, the effort reporting and certification requirements previously outlined under UTS 163, as well as current UTPB policies and procedures, are still applicable and also continue to comply with Uniform Guidance.

### **Audit Objective**

The purpose of our audit is to determine if the effort reporting and certification procedures at UTPB, in regard to sponsored programs, are reasonably accurate and in conformance with federal law and cost principles, project/grant requirements, and UT System and UTPB policies.

### **Scope and Methodology**

The scope of the audit included a sample of seven projects/grants, both recently closed out or currently active, from a list provided by the Office of Graduate Studies and Research. Our audit included the following procedures:

- Gained an understanding of the effort reporting and certification process

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- Reviewed laws, policies, procedures and best practices
- Reviewed project/grant requirements
- Conducted interviews with PIs and other key individuals
- Gathered documentation regarding effort reporting and certification for the selected sample

Our audit was conducted in accordance with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*.

## **Ranking Criteria**

All findings in this report are ranked based on an assessment of risk factors, as well as the probability of a negative occurrence if the risk is not adequately mitigated. The criteria for the rankings are as follows:

**Priority** – An issue identified by an internal audit, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.

**High** - A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

**Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

**Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level.

## **Audit Results**

### **1. Effort Reporting and Additional Compensation**

Current UT System and UTPB policies, which are designed to maintain compliance with federal law and cost principles, require that 100 percent of all effort (*total effort*), including work on sponsored programs, is to be certified, whether compensated or not. Consequently, ECRT rightly cannot certify more than 100 percent of effort, as it is based on *total effort*, not on salary or total compensation.

According to UTPB policy, all supporting individuals expending effort on a sponsored program must have their effort certified in ECRT by the PI. The current procedure is that an internal "PO-1" form is completed and indicates the percentage of effort and compensation amount to be allocated to different projects/cost centers. This information is entered into the payroll system, which in turn generates the ECRT certification form. Subsequently, each individual's effort, including the PIs own effort, is to be certified in ECRT by the PI on a semi-annual basis.

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Current practice at UTPB limits the reporting on the “PO-1” to an amount not greater than 100 percent of Institutional Base Salary (IBS). This information ultimately feeds into the ECRT system and generates the ECRT certification form, which should reflect 100 percent of an individual’s *total effort*, as previously explained.

However, the certifications in ECRT do not reflect *total effort* if additional compensation is granted above the IBS level.

In those instances where an individual has a full workload and is not granted a commensurate release from duties, any additional effort and additional compensation is reflected on an “Additional Pay” form, but is not reflected in ECRT.

From our sample of seven grants and review of UTPB procedures, we noted the following:

- A. Some individuals routinely receive additional compensation above and beyond their IBS for sponsored programs. When this occurs, their *total effort*, specifically, that effort related to the sponsored program, is not being certified as required by federal law and cost principles, as well as UT System and UTPB policies. As an example, on one grant, we noted at least nine individuals that had uncertified effort.
- B. There is no written policy governing the granting of additional compensation for work on sponsored programs, as required by federal law under the Uniform Guidance.

In the Uniform Guidance, such additional compensation is referred to as Extra Service Pay. Under the provisions of section 200.430(h)(4) of the Uniform Guidance, Extra Service Pay (ESP) is defined as “*overload compensation, subject to institutional compensation policies for services above and beyond IBS.*” Federal requirements state that ESP is allowable if certain defined conditions are met. Among them, that an institution “*establishes consistent written policies which apply uniformly to all faculty members, not just those working on Federal awards*”; and that they establish “*a consistent written definition of work covered by IBS which is specific enough to determine conclusively when work beyond that level has occurred*”. It should be noted that a sponsoring agency cannot require the payment of Extra Service Pay.

The amounts of additional compensation represent additional effort to be expended above the effort associated with IBS. Some individuals are receiving additional compensation on a long-term basis, some of which is significant. We noted one individual that was approved for nearly \$93,000 in additional compensation in FY 2015. We also noted two instances where the amount of additional effort is high when combined with an individual’s regular ongoing duties, especially since they had not been granted a commensurate release from duties. One individual had work overload levels equivalent to 66 percent above regular full-time duties (100 percent IBS level) for a four month period, with an additional two months at 85 percent above regular full-time duties. Again, these effort levels are not being reflected in ECRT.

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In our review of policies at other institutions, we found various policies on additional compensation due to work overloads:

- Not allowed. This is the policy we noted most often. Individuals are typically granted commensurate releases from regular duties which results in compensation from sponsored programs being included in their IBS, and does not result in additional compensation above IBS.
- Allowed, but only in unusual or rare circumstances and for a very limited amount of time during the year, such as one month or less.
- Allowed, but again, only in unusual circumstances, and where the additional compensation is limited to a maximum percentage of IBS, 20-25% as an example, over the life of the sponsored program, which again is limited, and not on an ongoing, long-term basis.
- Allowed on a limited basis as described above, but not allowable for a PI.

According to UTPB policy 4.123 *“Effort commitment by university personnel to sponsored projects shall be actively managed through the ECRT management system so that these effort commitments not only accurately reflect the time devoted to each one but also allow the personnel to fulfill other institutional obligations.”*

**Assessed Level of Risk: Priority**

**Recommendations:**

- A. In order to comply with federal law and cost principles, as well as UT System and UTPB policies, the Office of Graduate Studies and Research along with the Office of Human Resources should ensure that *total effort* of all individuals involved on sponsored programs will be reflected and certified.

Subject to limitations that might be imposed by PeopleSoft, this could be accomplished by indicating on the PO-1 form the total level of effort for an individual, including overloads and total compensation, and which would also include any additional compensation. This information could then be entered into the payroll system and would subsequently generate accurate information in ECRT.

- B. UTPB should adopt and implement written policies regarding work overloads and additional compensation (Extra Service Pay or ESP) that conform to the Federal Uniform Guidance requirements under section 200.430(h)(4). It should be noted that policies must conform to other requirements that may be imposed by federal funding agencies regarding additional compensation, such as the NSF and NIH. It is recommended that such written policies include limitations on the amount of ESP that can be received, whether it be a flat dollar amount; a percentage of IBS; a time limit; or some combination thereof in order to



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ensure that actual workloads are reasonable, and to mitigate against any negative impact on workloads associated with regular duties.

**Management Response:**

- A. We concur. In order to assure the certification of total effort of employees UTPB will strengthen its system of internal controls by developing a new (paper) PO-1 form that will include all employee effort and additional compensation, including all grant-related activities, course overloads, and other additional activities not considered part of routine job duties. Along with specifying these additional duties, the PO-1 form will include all additional compensation and the source(s) of that compensation. When there is a change in duties and/or compensation a new PO-1 will be created to reflect these changes and certify total effort.
  
- B. We concur. UTPB will develop written policies that address the issues of overloads and additional compensation or Extra Service Pay (ESP) above and beyond the Institutional Base Salary (IBS). The policies will conform to the Federal Uniform Guidance requirements and those of federal and state funding agencies. In addition, UTPB will develop a policy that limits the amount of ESP and/or time that employees can devote to these additional activities in order to assure the reasonableness of workloads and to mitigate any negative impact on performance associated with regular duties.

**Implementation Date:**

- A. March 2017
- B. March 2017

**Persons Responsible for Implementation:**

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs  
Mark McGurk, Vice President for Business Affairs

**2. Conflict of Interest**

The Office of Graduate Studies and Research is responsible for the oversight of project/grant proposals and effort reporting/certification for UTPB. However, an inherent conflict of interest exists in the job duties of the Assistant Vice President for Research. This position routinely solicits awards for sponsored projects/grants, prepares proposals, serves as a PI, and receives significant additional compensation from sponsored programs.

**Assessed Level of Risk: High**

**Recommendation:**

The position of Assistant Vice President for Research is an administrative position charged with the oversight of all sponsored program activity at UTPB, including the review and approval of all proposals prior to their submission to the sponsoring agency. Because of the fiduciary/oversight nature of this position, as well as the entire Office of Graduate Studies and Research, it is recommended that the duties of the Assistant Vice President for Research be revised in order to exclude or prohibit the soliciting of awards from sponsoring agencies;

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preparing project proposals; serving as a PI, supporting individual, or in any other similar capacity related to awards from sponsoring agencies; and the receiving of additional compensation from sponsoring agencies. It is also recommended that such exclusions be applied to all other individuals within the Office of Graduate Studies and Research.

**Management Response:**

We concur. Employees in the Office of Graduate Studies and Research, including the Assistant Vice President for Research and Graduate Studies, no longer will be able to serve as Principal Investigators (PIs), supporting individuals, or in any other similar capacity related to external awards. Nor will they be able receive additional compensation from sponsoring agencies.

**Implementation Date:**

Immediate\*

\*The Assistant Vice President for Research will be approved for no further compensation from sponsored activities, but since the Teacher Quality grant already is in progress the Assistant Vice President of Research will continue to serve as the PI until its termination in April 2017.

**Persons Responsible for Implementation:**

Dr. W. David Watts, President

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs

**3. Timely Payment for Sponsored Effort**

Compensation for completed work should be paid timely. Paying in arrears is a control issue in that it increases the risk of error, can lead to problems with retirement deductions, and results in additional staff work in having to document and explain late payments for retirement purposes. This is especially true when the payment is done through Additional Pay with project/grant funds. Our audit noted that in the case of salary being paid from a grant, the PI is the budget head for the funds and controls when individuals are paid from these funds, especially in the case of Additional Pay. When the PI decides to pay salary from a grant, they complete the Additional Pay request form, submit it for approval to the Provost/Vice President for Academic Affairs and the President, after which it is forwarded to payroll (Human Resources) for processing.

We noted an instance where a request for Additional Pay, for work going back in time up to 2½ years, was paid in one lump sum of \$49,000 in 2015.

**Assessed Level of Risk: High**

**Recommendation:**

Compensation should be paid timely. UTPB processes pay on a regular monthly basis. All PIs should ensure compensation is completed timely and coincides with the UTPB pay cycle.

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**Management Response:**

We concur. UTPB will develop and implement policies and procedures to ensure that compensation for completed work on sponsored projects will be paid to employees in a timely manner.

**Implementation Date:**

March 2017

**Persons Responsible for Implementation:**

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs  
Mark McGurk, Vice President for Business Affairs

**4. Primary Individual Minimum Effort**

Primary Individuals (PIs) are those individuals that oversee each project/grant. PIs are required to commit a minimum acceptable level of effort. Federal rules require a minimum level of effort, whether compensated or not. UTPB policy requires a 5 percent minimum level of effort on sponsored projects by PIs. Of the 7 grants we reviewed, we found that on one grant, the PI had no level of effort committed and was not receiving any compensation from that particular grant.

**Assessed Level of Risk: Medium**

**Recommendation:**

In reviewing project/grant proposals before their submittal to the sponsoring agency, the Office of Graduate Studies and Research should ensure that all UT System and UTPB policies and requirements are followed, including those regarding minimum levels of effort.

**Management Response:**

We concur.

**Implementation Date:**

October 1, 2016

**Persons Responsible for Implementation:**

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs  
Dr. Juli Ratheal-Burnett, Assistant Vice President for Graduate Studies and Research

**Status of Prior Year Findings and Recommendations**

Not applicable.

## **Conclusion**

The written policies and procedures of UTPB generally conform to federal and UT System requirements, except in regard to additional compensation. However, the results of our audit revealed some serious internal control deficiencies. We noted that *actual procedures* frequently do not lead to reasonably accurate effort reporting and certification, and, consequently, are not in conformance with federal law and cost principles, UT System policy, and UTPB's own internal policies.

## **ORIGINAL FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE TO FINDING NO. 2**

### **2. Conflict of Interest**

The Office of Graduate Studies and Research is responsible for the oversight of project/grant proposals and effort reporting/certification for UTPB. However, an inherent conflict of interest exists in the job duties of the Assistant Vice President for Research. This position routinely solicits awards for sponsored projects/grants, prepares proposals, serves as a PI, and receives significant additional compensation from sponsored programs.

**Assessed Level of Risk: High**

#### **Recommendation:**

The position of Assistant Vice President for Research is an administrative position charged with the oversight of all sponsored program activity at UTPB, including the review and approval of all proposals prior to their submission to the sponsoring agency. Because of the fiduciary/oversight nature of this position, as well as the entire Office of Graduate Studies and Research, it is recommended that the duties of the Assistant Vice President for Research be revised in order to exclude or prohibit the soliciting of awards from sponsoring agencies; preparing project proposals; serving as a PI, supporting individual, or in any other similar capacity related to awards from sponsoring agencies; and the receiving of additional compensation from sponsoring agencies. It is also recommended that such exclusions be applied to all other individuals within the Office of Graduate Studies and Research.

#### **Management Response:**

We concur. Employees in the Office of Graduate Studies and Research, including the Assistant Vice President for Research and Graduate Studies, no longer will be able to serve as Principal Investigators (PIs), supporting individuals, or in any other similar capacity related to external awards. Nor will they be able receive additional compensation from sponsoring agencies.

#### **Implementation Date:**

Immediate\*

\*The Assistant Vice President for Research will be approved for no further compensation from sponsored activities, but since the Teacher Quality grant already is in progress the Assistant Vice President of Research will continue to serve as the PI until its termination in April 2017.

#### **Persons Responsible for Implementation:**

Dr. W. David Watts, President

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs

## **MANAGEMENT'S REVISED RESPONSE TO RECOMMENDATION NO. 2**

Please refer to attached Management's revised response.

**Implementation Date:**

Immediate

**Persons Responsible for Implementation:**

Dr. W. David Watts, President

Dr. Daniel Heimmermann, Provost and Vice President for Academic Affairs

## **AUDITOR'S COMMENTS TO MANAGEMENT'S REVISED RESPONSE**

The purpose of internal controls in an organization is to reduce the possibility of risk to a level acceptable to management and to provide reasonable assurance regarding achievement of the organization's objectives. As such, segregation of duties is a basic and critical internal control in the oversight and accounting of an organization's assets. In this instance, the assets are Federal and other grant/research funds. Whenever proper segregation of duties is not possible, the use of compensating or mitigating controls can be used in order to reduce risk to a level acceptable to management.

From our audit, we identified a significant conflict of interest due to a lack of segregation of duties. As such, we stand by our original audit finding.

However, it is certainly the prerogative of management to revise its response to an audit recommendation and to adopt compensating controls in lieu of segregation of duties. It is also the prerogative of management to accept a higher level of risk that might be associated with those compensating controls.

Accordingly, as with all audit recommendations, we will follow up on management's revised plan of action to determine if it has been effectively implemented.



The UNIVERSITY of TEXAS of the PERMIAN BASIN

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Office of the President

November 18, 2016

Mr. Glenn Spencer, CPA  
Institutional Chief Audit Executive  
4901 E. University Blvd.  
Odessa, TX 79762

Dear Mr. Spencer:

Thank you for the dedicated work you and your office performed on the recent audit of *Effort Reporting and Certification* policies dated September 26, 2016. As you know, UTPB originally responded and concurred with all of your audit findings and agreed to undertake measures to address the identified issues.

After careful review, however, we wish to modify our response to Item 2 related to the issue of a perceived Conflict of Interest. UTPB originally concurred with the audit recommendation that the Office of Graduate Studies and Research, including the Assistant Vice President for Research and Graduate Studies, should be precluded from participating in external grant activities, including serving as Principal Investigators (PIs). It is now our position that the Assistant Vice President of Graduate Studies and Research may, in fact, undertake grant activity, including serving as a Principal Investigator of grants. In order to avoid any real or perceived conflict of interest and to assure compliance with all applicable rules and laws, the Provost and Vice President for Academic Affairs will provide oversight for any grant activities undertaken by the Assistant Vice President of Graduate Studies and for Research. Regarding the issue of faculty and staff receiving extra compensation from grants, as indicated in our audit response, the University is drafting policies relating to the issue of additional compensation or Extra Service pay that will apply to all UTPB employees.

Please let me know if you have any questions or concerns. Once again, thank you for your diligent service.

Sincerely,

A handwritten signature in cursive script that reads "David Watts".

W. David Watts  
President

CC: Dr. Dan Heimmermann  
Dr. Juli Ratheal-Burnett