



Internal Audit Department

Electronic Effort Distribution Reporting

May 2017
Report Number FY 17-09

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Northern Arizona University
Electronic Effort Distribution Reporting
Audit Report
May 15, 2017

Summary

Our audit of NAU's Electronic Effort Distribution Reporting system (eEDR) is in the Annual Audit Plan for FY 2017, as approved by the Audit Committee of the Arizona Board of Regents. This audit links to NAU's strategic goal of nationally recognized research excellence.

Background: For FY 16, 68 percent of the grant expenditures at NAU were federally funded. Federal grants are subject to the Office of Management and Budget's Uniform Guidance 2 CFR 200.430 – Compensation-Personal Services, National Institutes of Health Salary Limitation on Grants, and other relevant agency regulations. These regulations require that employees paid in part or whole from sponsored projects certify their salaries charged to sponsored projects are reasonable and consistent with the portion of their total professional effort. Effort percentages are used by sponsors to ensure compliance with research commitments. Researchers on federally-funded grants are not allowed to work more than 100% of their institutional (university-contractual) base pay. Supplemental pay greater than 105% of contractual pay or actual effort being less than committed effort by more than 25% may result in a reduction of allowed payroll costs.

NAU's effort certification process is intended to ensure that salaries charged to sponsored projects are proportionate with effort devoted to the project. Hours worked as reported in NAU's payroll system are allocated to state, local, and grant accounts. Principal Investigators and other research staff who charge to grant accounts are required to review the Effort Distribution Reports and attest that the payroll allocation reflects the hours and pay worked on the grant(s) with reasonable accuracy. Interdepartmental payroll transfers are required to make any corrections to effort reporting. For reporting periods prior to June 30, 2016, the Office of Sponsored Projects (OSP) relied on a manual system for effort reporting. The manual system was labor intensive and often led to untimely effort reports and several effort reports that remain uncertified.

In June 2016 NAU contracted with Huron Consulting Services LLC (Huron) for software and services relating to the purchase and implementation of a new electronic effort distribution reporting system. Implementation costs, including expenses, totaled \$215,000 with an annual license and maintenance fee of \$40,000. Huron provides a dedicated hosted environment consisting of web, application and database services that provides access to the software. The new system fully integrates with PeopleSoft Financials. It is also capable of integrating with OSP's pre-award software, Cayuse. OSP implemented the reporting system in January 2017.

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The first electronic certification was for the six-month period ended December 31, 2016. OSP provided education and training to help ensure that researchers certified their effort by the March 31, 2017 deadline. As of April 1, 2017, OSP reported that it had received certification from 91% of the 1,280 researchers required to certify. This percentage is up from 80% reported during the same period last year. OSP continues to work with researchers to achieve 100% effort reporting. Failure to certify research effort on federal grants may result in disallowance of costs or other penalties imposed by the granting agency.

Audit Objective: The primary objective of this audit is to determine whether eEDR meets user expectations and regulatory requirements.

Scope: The scope of our audit included a review of the system documentation and procedures in effect for the six-month reporting period ended December 31, 2016.

Methodology: The following procedures were performed to achieve the audit objective:

- obtained and reviewed the letter of engagement and subscription agreements as submitted by Huron and approved by Contracting and Purchasing Services on June 30, 2016;
- obtained and reviewed system documentation, including the Service Level Agreement provided by Huron;
- interviewed OSP personnel involved with monitoring effort reporting; and
- queried a sample of researchers to determine and report their experience with certifying effort using the new system.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Conclusion: eEDR meets user expectations and regulatory requirements, and significantly improves the efficiency and accuracy of certifying researchers' effort.

One recommendation was made: to obtain assurance that internal controls related to eEDR at the service organization are adequate.

Actions Planned: The hyperlink to quick references to certifying effort was found broken due to the OSP web-page being updated. The link will be fixed and checked by OSP before September 30, 2017 when the next reporting cycle begins.

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OSP reports that eEDR does not reflect time commitments. Reporting of time commitments would allow researchers to compare actual effort to grant contract time commitments. Time commitments will be uploaded from Cayuse once the accuracy of data from Cayuse can be verified.

OSP is working with the Associate Vice President of the Office of Sponsored Projects to escalate corrective action for those researchers who fail to certify.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommendation No.	Page No.
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> Research effort is determined using complete and actual payroll data. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> Effort percentages not deemed accurate by researchers can be modified timely. 	Reasonable to Strong Controls in Place		
Safeguarding of Assets			
<ul style="list-style-type: none"> Confidential data is safeguarded and controlled per the contract. 	Reasonable to Strong Controls in Place	1	5
<ul style="list-style-type: none"> Data is periodically backed up by the software provider. 	Reasonable to Strong Controls in Place		
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> NAU researchers and OSP staff are adequately trained on the new system. 	Reasonable to Strong Controls in Place		
<ul style="list-style-type: none"> User expectations are clearly defined. 	Reasonable to Strong Controls in Place		

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General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommendation No.	Page No.
<ul style="list-style-type: none"> The system identifies those researchers who have not certified timely for follow-up. 	Reasonable to Strong Controls in Place		
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> The new system helps ensure compliance with federal legislation and university policies. 	Reasonable to Strong Controls in Place		

We appreciate the assistance of the staff of the Office of Sponsored Projects and the researchers who responded to our survey.

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Audit Results, Recommendation and Response

1. A Service Auditor's Report should be obtained annually.

Condition: NAU has not obtained a Service Auditor's Report from Huron regarding Huron's controls and the effectiveness of those controls.

Criteria: Statement on Standards for Attestation Engagements (SSAE) 16, Reporting on Controls at a Service Organization, became effective on June 15, 2011. SSAE 16 benefits user organizations by enabling them to obtain valuable information regarding a service organization's controls without having to audit the controls themselves.

Cause: NAU was not aware of the availability of a Service Auditor's Report.

Effect: NAU has not obtained assurance that controls at Huron related to eEDR are adequate.

Recommendation: The Office of Sponsored Projects should obtain a Service Auditor's Report from the service organization annually.

Response: We agree and will request Huron provide a Service Auditor's Report annually beginning with fiscal year 2018.

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This report is intended for the information and use of the Arizona Board of Regents, NAU administration, the Arizona Office of the Auditor General, and federal awarding agencies and sub-recipients.