



I reviewed the Cohort Policy Matrix v6 (8-26-16) with a focus on the Internal Control Framework - Compensation. I specifically reviewed the document and provided insights into possible risks that could make compensation expenditures vulnerable and possibly the focus of future audits or special reviews. The OMB Uniform Guidance issued in 2014 was to reduce administrative burden while allowing institutions to use internal controls to prove that the institutions can effectively and efficiently administer federal grant funds. The increased focus on the institutions' internal controls is important to identify and guard against the risk of waste and misuse of Federal funds. This increases the importance of an institution's policies, processes, practices and monitoring activities to ensure that the institution's internal controls can identify possible risky transactions.

My overall assessment is that the Cohort Policy Matrix tracks to the Uniform Guidance and provides a framework that identifies compensation controls that can verify legitimate transactions and detect a variety of questionable transactions, and therefore can show that the institution's processes can adequately account for grant funds awarded for salary and fringe benefits. I believe that this Cohort Policy Matrix can be used by multiple institutions and will show that these institutions intend to reduce administrative burdens while using overall compensation processes and practices in a consistent manner to ensure that federal grant funds are accounted for in a reasonable and allowable manner.

My assessment is based on my experience of conducting investigations in the Higher Education and Research Communities. Over the past 28 years, I have worked with various federal, state, university, and contract auditors. I have also worked with compliance officials and research administrators. I agreed with the intention of the Uniform Guidance to allow institutions to reduce administrative burden without weakening internal controls or weaken the accountability of grant funds. I have witnessed that "Time and Effort Certification Systems" can be manipulated and do not always strengthen the internal controls over the institution's compensation systems. I believe that by increasing the focus on monitoring activities and using institutional compensation data effectively, institutions can make their compensation systems more efficient, effective, and reduce risk of manipulation and abuse.

Initial Comments to the Cohort Policy Matrix.

My first comment is on the "FDP Pilot Institution OIG Report Analysis" section of the matrix which focused on the NSF audits. NSF Auditors completed two audit reports that are included in this analysis, however, the HHS Audit report is not final and should be released soon. I believe it would be beneficial to review the upcoming HHS Audit report prior to finalizing this Cohort Policy Matrix. Historically, NSF-OIG and HHS-OIG have approached these types of audits very differently. In fact, one source told me that these audits were to be coordinated between HHS-OIG and NSF-OIG, however, differences in approaches caused these two offices to conduct separate audits and the findings will probably be very different. I believe that analysis from the HHS Audit report will provide new insights



into what HHS-OIG may view as important documentation for compensation systems.

As part of this review, I talked to various government, university, and contract auditors about their perspectives on compensation systems that adequately accounted for grant funds and about the issues auditors look at while conducting compensation audits and reviews. These auditors said that they look to see if the system is reasonably auditable. Meaning that they look for processes and procedures that show that compensation charged to a project is relevant (related) to the grant that funded the project. The auditors also said that they look to see if the documentation is reliable, and if there is a process to verify the accuracy of the payment transactions.

According to these auditors, timeliness of payroll transactions, including reallocation of payroll transactions by Journal Entry or Cost Transfer, are key to identifying that payroll transactions are relevant. If payroll transactions are not processed in a timely manner, or are transferred months after the work was completed, the transactions will be questioned by the auditors. Many of the auditors also said that they routinely request documentation to support any changes to payroll that take place outside of 90 days after when the work was completed. Some Auditors said that transactions over six months late are automatically considered suspicious. In addition, many institutions do not allow for salary transactions over one year late to be placed or transferred onto a federal grant.

Auditors also look to ensure that the institutions payroll process includes an official that has direct knowledge to verify that the person being paid from the grant was actually working on that grant. This issue goes to the reliability of the payroll transactions. According to the auditors, if part of an employee's salary is charged to a federal grant, there should be a reliable process to verify that the employee actually performed work related to the project.

Finally, the auditors are currently looking for additional processes that would validate the payroll transactions beyond just single process, such as a departmental payroll action. This issue goes to additional processes by central administration or the Office of Sponsored Programs to run test on payroll actions in addition to the routine payroll process. These additional tests are the internal controls mentioned in the Approach and Use sections of the Internal Controls Framework.

In my opinion, the Approach and Use sections of the Internal Controls Framework is strongly worded and will assure auditors that the institution understands that its processes will lead to efficient and effective operations while also balance the strength of controls and the relative risk. I found the bold parts of these sections were particularly effective in showing that institutions are looking at controls as an effective approach to managing grant funds. The processes that focus on strengthening controls and identifying risk are the additional controls that will satisfy auditors and funding agencies that the institution has the controls to account for federal funding.

I did not have any comments to System Controls section and thought that it was straight forward. However, I feel that the wording in the additional sections starting at the Allocation of Payroll



could be stronger to ensure that institutional employees, as well as outside auditors, understand the controls and that controls are effective and efficient.

Allocation of payroll: Controls associated with the payroll estimate to be charged.

My first comment is in the “Initiation of Salary Allocation (basis for the Budget estimate)” row. The Control Description second sentence states, “This may be based on the awarded budget, a policy statement, consultation with the PI, transaction workflow, or as the PI determines.” First, I would like to see the phrase “may be” replaced with something more affirmative, such as, shall or should. The word “may” implies that it is optional, where “should” means the action is recommended and “shall” dictates that additional action is needed. A stronger statement would be, “This should be based on awarded budget, a policy statement, transaction flow, or with consultation with the PI after notice of award to confirm proposed budgets remain relevant.” Best practices within the community could be added, such as, an institution initiated kick-off meeting between OSP and the PI after award notice to ensure that information in the budgets are still relevant to complete the work as proposed under the award.

In the Salary Allocation Review and Approval row, second sentence under the Control Description, includes optional language by stating, “There may also be a record of Central Administration’s review payroll allocation for allowability, reasonableness etc.” I recommend a more affirmative statement for additional review and approval, such as, “There should be a record of Central Administration or Office of Sponsored Program review of selected or targeted payroll allocation for allowability, reasonableness, to ensure that institutional policies are followed.” Auditors will look for some type of additional control structure outside of the departmental payroll process to verify the allocation process. However, full review of all departmental payroll allocation would be unduly burdensome. Therefore, institutions must use a process to select, or target, possible a portion of compensation transactions based on risk assessment or another process.

Payroll Review: Controls to document, confirm, or review that payroll estimates and charges are reasonably accurate.

Overall, Payroll Review section contains good ideas but we need to consider that the Auditors will be looking at timing issues in this area. Strengthening this section by adding information about timing or clarifying the frequency of when the Control Description actions occur will satisfy the Auditors. The Payroll Reconciliation row does not include a time frame of when payroll reconciliation will occur and how often the department will perform the payroll reconciliation. By recommending a time frame in the Payroll Review section as a best practice, it will strengthen this control description and will assure the auditors that the institution is reviewing and confirming payroll estimates in a timely manner.



The Payroll Report row, discusses Reports of payroll charges (cumulative or other interval) that may be used to trigger reallocations of payroll. However, this section does not have any time frame in which the payroll reports will be distributed for review and verification. As previously stated, timely review by the institution may identify abuse or inaccurate transactions and will show the auditors that the institution has a process to timely identify questionable transactions. One institution that I am familiar with distributes payroll reports monthly to PI with a request that the PI initiate corrections if the reports contain misinformation on the allocations. Another institution requires that PIs certify that quarterly payroll reports are accurate. By recommending best practices, such as, monthly or quarterly timeframes for report distributions, this would satisfy auditors that reports are distributed and reviewed in a timely manner. These types of requests for timely review of reports do not have to have a positive response that confirms that all is accurate. Just the fact that the reports are provided and the institution is requesting that the reports be reviewed so that misinformation can be identified and corrected is an adequate control mechanism.

In the Payroll Certification/Confirmation/Review row, the control description last sentence states, "A reasonable timeframe (e.g. 90 days) for the review to be completed should be stated." I believe that this timeframe will assure the auditors that control action is timely. The rest of the Payroll Review control descriptions should be reviewed closely to determine if time frames should be included to assure Auditors that these controls actions occur in a timely fashion.

Enforcement: The institution has explicit authority to enforce additional internal controls or penalties for failure to follow the internal control framework.

The control description in the first row states, "The institution has determined that the risk for an audit (via the internal control framework) finding is too high and this control will be a deterrent for it to reoccur." I believe that stating "that the risk for an audit" is not the reason for enforcement action but the enforcement action should be to stop payroll transactions that are not reasonable or allowable, and to identify fraud and waste. A better description would be "The institution has determined that the risk of identifying payroll transactions that are not allowable, reasonable, or allocable, is too high and this control will be a deterrent for improper payroll actions that cause fraud or waste to occur."

I do not have comments to the remaining internal control framework. I do believe that final review of the Internal control framework should be focused on increasing the institutions to use internal controls to prove that the institutions can effectively and efficiently administer federal grant funds. This will primarily be accomplished by having strong additional controls that focus on timely identifying inaccurate and incorrect payroll transactions.