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for Colleges and Universities

In This Issue

Please Note:

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Contributing Editor
Kathleen Dunten

Managing Editor
Frances Fernald

NSF Audit Faults Another University For Undocumented Changes to Effort

In its ninth audit of major university effort reporting systems, the National Science Foundation (NSF) Office of Inspector General (OIG) found that the Georgia Institute of Technology has a generally well established labor effort reporting system, but it lacks adequate internal controls over prospective workload allocation changes and after-the-fact transfers of labor costs. Similar to findings at other universities, the audit also found problems with Georgia Tech's policies regarding voluntary committed labor of principal investigators (PIs) and NSF's prohibition against funding more than two summer months' salary for PIs.

The audit covered fiscal year 2007 expenditures. On-site reviews were conducted by the auditors during two, two-week periods in November 2007 and January 2008, and the audit was issued on June 30. On the same day, NSF released another effort reporting audit, covering Cornell University (see p. 4).

Georgia Tech's effort reporting system consists of monthly workload allocation reports (EWAFs) and an Annual Statement of Reasonableness (ASR), which summarizes the EWAFs for the year.

As it is at many universities, primary responsibility for all aspects of sponsored research projects, including approval of charges and assurance that the research follows award terms and conditions, rests with the PIs, in conjunction with academic department business administrators. Georgia Tech's business administrators post

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Recovery Act Reporting Guidance Issued; Prepare for Initial Reporting in October

It's now official: the first report on American Recovery and Reinvestment Act (ARRA) funding is due on Oct. 10. This information, as well as other clarifications on ARRA reporting, was set out in the Office of Management and Budget (OMB) implementing guidance issued on June 22 for reporting required under Section 1512 of ARRA. OMB and the Recovery, Accountability and Transparency Board then conducted a series of webinars during the week of July 20 to discuss the reporting guidance and answer questions. (For Web addresses of all ARRA materials issued in June and July, see box, p. 4.)

The guidance applies only to recipients of federal assistance (grants, loans, and cooperative agreements); direct federal contractors must follow the data submission requirements in interim Federal Acquisitions Regulation (FAR) clause 52.204-11.

Attached to the guidance is a List of Programs Subject to Recipient Reporting, which is current as of the date of issue but is likely to change in the future. Although most of the programs on the list are geared toward infrastructure projects and other state and local government programs, a number of research programs at

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various departments and agencies are included on the list, such as National Institutes of Health (NIH) extramural research programs and a new NIH Recovery Act program to provide research support. National Endowment for the Arts grants and grants for preservation of historic structures at historically black colleges and universities also are included on the list.

State Stabilization Funds

While not specifically discussed in the June 22 OMB guidance or the webinars, many state-supported institutions will be receiving state stabilization funds as flow-down of Department of Education funds to individual states. In many cases, these funds are coming as part of the institution's normal state appropriations process. It is important that institutions determine whether their campus is receiving these funds, because they will need to be accounted for separately and reported as ARRA funds either through the state or directly by the institution.

How and When to Report

Recipients of ARRA funding must file reports quarterly, beginning in the quarter in which an award is made, and no later than 10 days after the end of the quarter. Reports will be submitted through www.federalreporting.gov and made available through www.recovery.gov. Recipients must provide cumulative data through the most recent quarter.

For example, if the first report in October indicates that 25% of the funded project was completed, and in January (for the second reporting quarter), another 15% had been completed, that report would show 40% completion.

Federal funding agencies will use the same Web site and underlying database to review the reports.

Section 3.2 of the guidance describes the time frames for the entire reporting process, including quarterly submissions, data quality review, error correction, and agency review. The schedule for quarterly data input and verification is as follows:

◆ Applicants must submit their data by the 10th day following the end of the quarter (with the first report due Oct. 10, again, for the cumulative period ending Sept. 30).

◆ Between the 11th and 21st day, prime recipients are required to assure that the information is accurate and complete.

◆ Federal agencies are required to verify the submitted information beginning on the 22nd day and, pursuant to statutory requirements, by the 30th day following the end of the reporting period.

What Must Be Reported

Section 2.3 of the June guidance itemizes each of the data elements all prime recipients must report quarterly, including

◆ the total amount of funds received and the amount spent on projects and activities;

◆ a list of the projects and activities, with project description, completion status, and number of jobs created for each project; and

◆ details on subawards and other payments.

Guidelines for actual submission of the reports to www.federalreporting.gov, reviewing the data submitted, and making corrections are provided in Sections 3.6 through 3.10. These sections explain that reports can be done in one of three ways:

(1) Directly on-line at www.federalreporting.gov using a data entry form

(2) Through an Excel spreadsheet that can be downloaded, completed, and uploaded back to the Web site

(3) Through organizational system extracts in XML

The guidance presents as an attachment a Recipient Reporting Data Model. The data model provides an example of the Excel spreadsheet and the schema defini-

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Contributing Editor, Kathleen Dunten; Managing Editor, Frances Fernald; Production Director, Andrea Gudeon.

Editorial questions should be addressed to: Frances Fernald at ffernald@aispub.com.

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tion of the XML extract file. The model includes a data dictionary that defines each data item for prime recipients, subrecipients, and vendors and gives an example.

Payments to Subrecipients and Vendors

Recipients of federal assistance also must report on all payments to subrecipients, and to vendors if payments are more than $25,000 of ARRA funds. Section 2.2 of the June guidance provides detailed explanations of how to distinguish between a subaward and a vendor payment.

For vendor payments that exceed $25,000, prime recipients must report three different data elements than they report for subrecipients: the DUNS number of the vendor (or the name and zip code of the vendor's headquarters if it does not have a DUNS number); the amount of the payment; and a description of what the vendor provided for that payment. During the webinars, the office clarified that the $25,000 vendor data requirement is per purchase and not cumulative.

For example, if two pieces of equipment were purchased for an ARRA-funded project, one costing $15,000 and the other $30,000, the specific vendor data requirements would only apply to the $30,000 item.

A prime recipient also must report the aggregated amounts of funds disbursed to individuals and of payments less than $25,000. (See Section 2.4 of the guidance.)

Delegation to Subrecipients Permitted

Section 2.3 specifically allows prime recipients to delegate to subrecipients reporting responsibility for those subrecipient data elements that are also required by the Federal Funding Accountability and Transparency Act (FFATA). (OMB often refers to them as FFATA data elements). If the prime recipient chooses to delegate that responsibility, it must be done in time for the subrecipient to prepare to report the data, including proper registration with the reporting system at www.federalreporting.gov. However, even if the reporting is delegated, the prime recipient remains responsible for the timeliness and accuracy of the data. Reporting on data may not be delegated to vendors (see Section 2.2).

If a prime recipient has delegated reporting responsibility to a subrecipient and the subrecipient makes payments to vendors, that subrecipient must only provide the identity (DUNS number or name and zip code of headquarters) of the vendor for each payment exceeding $25,000. If the prime recipient has not delegated responsibility for reporting to its subrecipients, the prime recipient must develop a process with its subrecipients so that the required information can be gathered and reported on time.

If the prime recipient decentralizes reporting or delegates reporting responsibility to subrecipients, opportunities could arise for errors due to "double counting," where confusion about who is responsible for what could lead to the same data being reported by two separate entities. Prime recipients are responsible for designing and implementing a process that prevents duplicate reporting and for clearly communicating who is responsible for what.

According to Section 2.9 of the guidance, if two reports are submitted, the last report will be considered the final submission.

Reporting entities (federal agencies, prime recipients, and delegated subrecipients) must register before they can submit reports; the registration function will be available on www.federalreporting.gov no later than Aug. 26. Before registering, registrants must have registered in the Central Contracting Registration (CCR) database and have a DUNS number. Recipients are urged to ensure that these basic requirements are met immediately. Section 3.4 of the guidance outlines the process for registration with www.federalreporting.gov, and Section 3.5 provides information on how to register with CCR and obtain a DUNS number.

Data Quality, Jobs Also Addressed

Section 4 of the guidance is devoted to data quality requirements. Prime recipients, and any subrecipients who have been delegated reporting responsibility, are responsible for ensuring the accuracy, completeness, and timely reporting of the data. As indicated in the time line, recipients must verify the accuracy and completeness of the data between day 11 and 21 of the month following the close of the reporting quarter.

Section 5 provides guidance on how a recipient should estimate jobs created or retained as a result of the ARRA-funded project, which is one of the reporting requirements. Recipients must provide a numerical estimate and a narrative description of the employment impact. Prime recipients must include in their estimates an estimate of jobs created or retained on projects and activities managed by their subrecipients. This is not one of the data elements that may be delegated to subrecipients.

The recipient determines what constitutes an FTE (full-time equivalent) in terms of standard work hours and derive the FTE jobs retained/jobs created data

Web Links for ARRA Reporting Releases

The links below are those for the OMB June memoranda on ARRA reporting, as well as other documents and training materials released in June and July. All these documents can be accessed directly after logging on to www.FederalAuditing.com and clicking on "Newsletters," then Links in the News.

◆ *OMB Memorandum, June 22, Implementing Guidance for Reporting ARRA Funds* — www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21.pdf

◆ *List of Programs Subject to Recipient Reporting* — www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-21-supp1.pdf

◆ *Recipient Reporting Data Model* — www.recovery.gov/sites/default/files/Final+OMB+Templates.pdf

◆ *Webinar materials on ARRA guidance and reporting* — www.whitehouse.gov/recovery/webinartrainingmaterials

from those work hours. The calculation is then derived by adding the total hours worked by all employees in the quarter and dividing by the total hours in a full-time schedule.

For example, for those organizations with a traditional 40-hour work week, the standard quarterly hours would be 520. For faculty whose effort is tracked on a percentage basis, the percents should be converted to hours using the standard institutional FTE hourly definition.

One of the concerns that many institutions have is how to satisfy the requirement to report jobs created/jobs retained for vendors. During the July webinars, presenters indicated that this is likely only possible for major procurement items; the example given was the purchase of 10 school buses. For most colleges and universities, the vendor will not be able to provide or even identify this data, and it is expected that federal models for deriving these estimates will be used by the government, rather than requiring the recipients to do this for small-level purchases.

Whether a job is retained or created is an institutional decision. For many institutions, budget cuts may have forced planned job reductions — consequently, FTEs that would have otherwise been eliminated and are now directly charged to ARRA awards certainly would qualify as jobs retained.

Neither the guidance nor webinars addressed how to count tenured faculty. In a panel of federal representatives at the June Council of Governmental Relations meeting, however, the message was clear that if institutions use a thoughtful and reasonable methodology in counting jobs retained/jobs created, such a methodology would be acceptable.

No Addendum Released Yet

The OMB June 22 memorandum, in a footnote to Section 1.8 (see guidance, p. 5), states that an ARRA addendum to the A-133 Compliance Supplement was planned for publication on June 18. To date, that addendum has not appeared. ✧

NSF Cites Verification Problems In Cornell Effort Reporting Audit

Labor cost reports at Cornell University are sometimes certified by employees without first-hand knowledge of that labor and with no suitable means of verification, according to a recent National Science Foundation (NSF) Office of Inspector General (OIG) audit. These findings are similar to others in the NSF OIG's ongoing series of audits of major university effort reporting systems. The Cornell audit report, the tenth in the series, was released on June 30, on the same day that NSF released an additional effort reporting audit focusing on the Georgia Institute of Technology (see p. 1).

The OIG's auditors conducted two, two-week site visits at Cornell during January and April 2008. As part of this audit, they reviewed earlier audits, including Cornell's A-133 audits and a February 2007 internal audit of research and sponsored programs, which covered transactions for sponsored awards closed between January 2004 and December 2005 and sponsored program services. Particularly troublesome, according to the audit, is that an internal audit reported similar findings, but nothing had been done to correct the problems by the time the OIG audit was conducted.

Effort Reporting Weaknesses Cited

As with many of the NSF OIG's other effort reporting audits, this audit says that the university did not place sufficient emphasis on effort reporting and "did not define in its policies what constituted a suitable means of verifying labor effort or establish adequate internal controls to provide for effective management and oversight of its labor effort reporting system."

Although some monitoring was occurring, the report found that there was no explicit review of the full-year effort by the principal investigators (PIs), and large numbers of employees were included in group certifications.

The audit found that some labor effort reports were certified by department and unit administrative officials who were not in a position to know whether the work was actually performed as reported (which is allowed by OMB Circular A-21), but who did not use a suitable means of verifying the work as required by the circular. Cornell's effort reporting policy requires such officials to have a suitable means of verification, but it does not define what that is, does not require documentation by the certifying official, and does not hold certifying officials accountable for following certification policies and procedures.

Cornell neither provides PIs with training in effort reporting, nor requires them to be involved in the certification process, which can contribute to unreliable effort reports, according to the audit.

Internal Audit Found Similar Problems

As noted above, the internal audit conducted by Cornell in 2007 found the same deficiencies the OIG audit found, and the university had failed to act on the findings and recommendations of that report. The internal audit found that key terms, such as "suitable means of verification" needed to be defined in the university's policies, and that "first-hand knowledge" and "significant changes in effort" (regarding changes of 10% or more) needed to be clarified.

The internal audit called into question the practice of several departments to certify a group of employees' labor rather than having each individual self-certify. The internal audit also found a number of instances, as did the OIG audit, supporting the need for PIs to be trained in sponsored research administration.

According to the OIG audit, Cornell's response to each issue cited in the internal audit was brief and noncommittal, and even though there had been some "'behind-the-scene' actions" taken to address those issues, they had not been corrected by the time the OIG audit was conducted.

Planned Changes Will Address Findings

The OIG audit recommended that Cornell update its policies to

◆ add detailed definitions of "suitable means of verification" and "first-hand knowledge";

◆ clearly define steps to take to demonstrate and document that a suitable means of verification is used before certifying effort reports and hold certifying officials accountable for following the revised procedures;

◆ ensure that all affected officials, including PIs, receive periodic labor effort training;

◆ require PIs to take a more direct role in the effort certification process; and

◆ respond more quickly to recommendations from internal audits.

Cornell officials responded to the preliminary audit recommendations by outlining changes that will address the recommendations by the end of the year.

More Frequent Certifications Suggested

Finally, the OIG audit noted that Cornell certifies effort reports only once a year, whereas almost all of the other universities that have been subject to NSF's effort reporting audits have multiple certification periods during the year. The audit notes that although yearly certification is allowed, the long period between the time the actual work occurred and the time it is certified increases the risk of misstatement.

For instance, 21 of the 30 employees who were sampled in the audit were certified more than a year after the beginning of the reporting period, which the audit report noted was five months longer than the average of other major universities recently audited. Although no recommendation was made, the university replied that it will reconsider the frequency of its effort reporting process.

Link: www.nsf.gov/oig/09_1_008_cornell.pdf. ✧

University of Dayton Single Audit Cited for Quality

Despite an impressive training and quality control monitoring process for the Circular A-133 audits it performs, Ernst and Young's (E&Y) A-133 audit of the University of Dayton appears to have slipped through the cracks.

The Office of Inspector General (OIG) at the Department of Defense (DoD) conducted a quality control review of the university's 2007 single audit report and found a number of deficiencies, and these deficiencies required a do-over by E&Y, as well as corrections by the university, and a resubmission of the A-133 reporting package.

DoD, which is the cognizant agency for the University of Dayton, used the checklist in the Uniform Quality Control Guide for A-133 Audits. The guide, although issued in 1999 by the then-President's Council on Integrity and Efficiency, is still the official guide for performing single audit quality control reviews, according to the audit report. The checklist is posted on www.FederalAuditing.com under "Government Documents."

DoD limited its review of major programs to the Research and Development Cluster, as described in the *Circular A-133 Compliance Supplement.* It specifically reviewed the qualitative aspects of the audit, including auditor qualifications, independence, due professional care, planning and supervision, internal control and compliance testing, Schedule of Expenditures of Federal Awards (SEFA), and the Data Collection Form.

A-133 Compliance Requirements

DoD tested nine of the A-133 compliance requirements and concluded that E&Y had not performed adequate procedures to support a conclusion on internal control over, and compliance with, three of the requirements: (1) procurement, suspension, and debarment; (2) cash management; and (3) subrecipient monitoring.

Cash Management. For cash management, although approximately 60% of the funds the university received were advance payments, the auditors did not test whether interest earned on advance payments of more than $250 was reported and remitted to the appropriate agency, as required by A-133. For funds disbursed using the reimbursement method, the auditors did not verify whether payment requests were based on actual cash disbursements. After repeating the audit procedures, E&Y concluded that the university was complying with the A-133 requirements.

Procurement Internal Control and Compliance Testing. Although the auditors did develop an understanding of the university's internal controls for procurement, suspension, and debarment, and identified key controls for testing, the workpapers did not indicate that they had actually performed the tests. E&Y told the OIG that upon review it determined that the procurement requirements were not direct and material to the university's R&D cluster for FY 2007, and a compliance review was unnecessary. This determination, the OIG said, should have been made and documented in the planning phase of the audit.

Subrecipient Monitoring. The workpapers did not provide evidence that the auditors had tested to see whether the university adequately monitored its subrecipients to assure proper use of pass-through awards and subrecipient compliance with the flow-down provisions of the award. The OIG also found little documented evidence that the auditors had tested whether the university ensured that the subrecipients had met their A-133 audit requirements, had taken action on any findings, and addressed the impact of these findings on its own awards. Documentation of the supplemental audit work found that the university was complying with the subrecipient requirements.

Government Auditing Standards

The OIG faulted E&Y for not referencing an Oct. 1, 2007, management letter issued to the university's audit committee in its "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with Government Auditing Standards." The October letter cited information technology system control deficiencies. E&Y maintained that these deficiencies were insignificant, but the OIG still could not support this conclusion based on the workpapers.

SEFA, Data Collection Form

As to the Schedule of Expenditures and Federal Awards and Data Collection Form, which are prepared by the university, the pass-through award information was not presented properly. For the R&D Cluster, award expenditures are shown either by individual award or aggregated by federal agency and subdivision within the agency. The university presented the awards as one line item and provided individual award details on a separate schedule. The SEFA, however, did not show the amounts by agency.

The Data Collection Form was not prepared correctly because it did not show the CFDA number or federal agency prefix for the subawards received by the university; instead, the university simply identified these awards with "99 Miscellaneous." This code is only supposed to be used for federal agencies not listed in Appendix 1 to the Data Collection Form instructions. The university agreed to revise and correct the 2007 SEFA and Data Collection form and file them with the revised A-133 reporting package.

Finally, the OIG said, E&Y needs to "enhance its documentation" of its review of SEFA and the Data Collection Form. The OIG required "significant additional explanations from the audit managers" to accept the audit's conclusion and opinion on these areas. E&Y, in its response, pointed out that the documentation of the SEFA was one of the common deficiencies found in the National Single Audit Sampling Project and said the AICPA has been working on an illustrative audit program for this area.

Link: www.dodig.mil/Audit/reports/fy09/APO/09-6-006.pdf. ✧

NSF Audit of Georgia Tech

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awards and their budgets to university financial systems. Further, they ensure that award expenditures are monitored on a monthly basis and that labor effort certifications are reviewed and approved by the employee or appropriate PI.

Prospective Changes Not Documented

The auditors found that the university had not established an adequate system of internal controls over prospective changes in workload allocations because there is no assurance that the PI or other responsible official approved or was aware of the changes.

The monthly EWAFs are distributed to employees assigned to sponsored research projects. Each employee is required to review the workload allocations and notify the department business administrator or the employee's supervisor if any changes are necessary, but university policies do not require any documentation of the justification for or approval of the change.

The business administrators independently enter the changes into the effort reporting system. Although PIs can access on-line monthly project cost reports, which could alert them to changes in effort reporting, they are not required to do so.

The auditors noted that Georgia Tech internal audits have analyzed workload changes in each internal audit conducted since 2004. Over a nine-month period in 2007, about 15,000 changes occurred, which represented approximately 3,700 transactions, and similar statistics were found each year. The internal audits, however, did not identify the changes as an internal control weakness, so no changes were recommended.

Some Cost Transfers Lack Backup

Georgia Tech's effort reporting system also allows for changes, in the form of cost transfers, made after the labor has already occurred and has been posted to the system. University policy includes two conflicting guidelines regarding the cost transfers: one that requires full documentation and justification for any retroactive change, and another that requires such documentation only for cost transfers that are initiated 60 days or more after the payroll was posted. The university follows the less stringent 60-day rule. The auditors also found that the university processed post-60-day cost transfers even if the documentation was not adequate.

The 2007 internal audit found that 80% of transfers (covering approximately $600,000 in labor costs) were initiated within 60 days, which means that no documentation or justification was required. Like the OIG audit, internal audits also found that documentation for post-60-day cost transfers was often unacceptable because of inadequate documentation or justification. Although this statistic dropped from 67.4% in 2005 to 21.8% in 2007, the OIG auditors noted that even the improved number represents a significant problem.

University Agrees With Recommendations

The OIG auditors recommended that Georgia Tech make the following changes:

◆ Require written justification and approval or confirmation by the PI on all prospective changes to the EWAFs and to all labor cost transfers.

◆ Establish procedures to ensure that PIs and the university's Office of Grants and Contracts Accounting are notified about all prospective changes and cost transfers, including the explanations for them.

◆ Develop oversight procedures to periodically check on compliance with university and federal requirements on grants management, including interviewing PIs to ensure they understand and correctly fulfill their responsibilities.

◆ Update university cost transfer guidance to eliminate conflicting requirements.

◆ Review manpower needs so that enough staff resources exist to follow up on and oversee these changes to the effort reporting procedures.

◆ Change effort reporting training to incorporate the revised policies regarding prospective changes and cost transfers.

The university agreed with all of the recommendations and proposed changes that the auditors determined would meet the intent of all recommendations.

Other Problems Cited

The OIG audit cited two areas that have shown up in nearly every one of the NSF effort reporting audits conducted so far — cost sharing and summer salaries. Although the audit did not turn up any instances of noncompliance in these areas, Georgia Tech does not have policies or procedures to specifically address them, which weakens internal controls over faculty reporting, according to the audit.

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First, the auditors found that the university does not have any policies and procedures to comply with the federal requirements to account for voluntary committed cost sharing.

The Office of Management and Budget's (OMB) issued a clarification memorandum in 2001 that requires an estimated amount to be computed and included in the university's organized research base if a project does not include any faculty effort, either paid or unpaid, which includes voluntary committed cost sharing. Voluntary committed cost sharing is defined as "effort not required by the sponsor but proposed in the sponsored project narrative and/or budget with no corresponding funding requested."

The OIG auditors found that Georgia Tech policies do not address the OMB clarification memorandum, and the university does not require estimating PI time expended on awards for which no senior faculty time was requested. University officials told the auditors that although it rarely occurs, when a PI spends voluntary uncommitted time on a sponsored project, that time is charged to state funds. The auditors noted that even though it rarely occurs, the fact that the estimated effort is not being included in the indirect cost base is the result of an internal control weakness.

The second area cited by the auditors concerned NSF's requirement that no more than two months of summer salary be charged to NSF-sponsored agreements. The auditors found that university policy allows payment for the entire three-month summer session because other federal agencies allow it. The university relies on the PI and other university staff to know about NSF's two-month restriction and to comply with it. The auditors found that because the two-month restriction on NSF grants is not addressed in university policies, it is less likely that reviews will recognize and highlight violations of the rule.

To address the voluntary committed labor issue, the auditors recommended that Georgia Tech establish written policies to identify, estimate, and allocate voluntary committed labor cost share to a cost share account. To address the two-month restriction on faculty labor, the auditors recommended that the university establish a policy limiting charges on NSF-sponsored projects to two months of the faculty member's base salary in any calendar year.

Georgia Tech concurred with both recommendations and proposed changes to policies that the auditors considered would meet the intent of the recommendations.

Link: www.nsf.gov/oig/09_1_009_git.pdf. ✧