



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW
ROOM 419
WASHINGTON, D.C. 20506
(202) 606-8350 (PHONE)
(202) 606-8329 (FAX)
WWW.NEH.GOV
HOTLINE 877-786-7598

March 26, 2009

MEMORANDUM

TO: Carole Watson, Acting Chairman
Michael McDonald, Acting Deputy Chairman
Jeff Thomas, Assistant Chairman for Planning and Operations
Adam Wolfson, Assistant Chairman for Programs
Nadina Gardner, Director ~ Division of Preservation and Access
Susan Daisey, Director ~ Office of Grant Management

FROM: Sheldon Bernstein, Inspector General *SB*

SUBJECT: Results of the Office of Inspector General (OIG) Desk Review of the Time and Effort Accounting Policies and Procedures Implemented by the Museum of Northern Arizona [OIG-09-01 (DR)]

We have completed a desk review of the time and effort accounting policies and procedures implemented by the Museum of Northern Arizona (MNA). The objective of our review was to assess the adequacy of the organization's procedures to ensure compliance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Attached is a copy of the subject memorandum report.

Based on the results of our review and our understanding of the organization's time and effort accounting policies and procedures, we have concluded that the procedures in effect for the period covered by our review, are not adequate to ensure compliance with the requirements set forth in OMB Circular A-122 concerning support of salaries and wages. During the period covered by our review, salary and wage charges not directly supported by Federal funds but related to projects supported by Federal funds were based on predetermined allocation factors. During the course of our review, the Controller at the MNA asserted that the policies and procedures have been modified and all salary and wage charges to projects supported by Federal funds would be based on effort reported in employee timesheets. We did not expand our review to properly test implementation of the modified procedures and therefore cannot attest to the sufficiency of the modifications.

If you have any questions, please contact Ms. Laura Davis at (202) 606-8574 or ldavis@neh.gov.

Attachment

- Memorandum Report OIG-09-01 (DR) to Museum of Northern Arizona



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW
ROOM 419
WASHINGTON, D.C. 20506
(202) 606-8350 (PHONE)
(202) 606-8329 (FAX)
WWW.NEH.GOV
HOTLINE, 877-786-7598

March 26, 2009

██████████
Controller
Museum of Northern Arizona
3101 N. Fort Valley Road
Flagstaff, AZ 86001-8348

OIG-09-01 (DR)

Dear ██████████

We have completed our desk review of the time and effort accounting policies and procedures implemented by the Museum of Northern Arizona (MNA). The objective of our review was to assess the adequacy of the organization's procedures to ensure compliance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Our review included employee timesheets and payroll reports for the period February 1, 2008 thru April 30, 2008.

Based on the results of our review and our understanding of the organization's time and effort accounting policies and procedures, we conclude that procedures, that were in effect for the period covered by our review, are not adequate to ensure compliance with the requirements set forth in OMB Circular A-122 concerning support of salaries and wages. During the period covered by our review, salary and wage charges not directly supported by Federal funds but related to projects supported by Federal funds were based on predetermined allocation factors. During the course of our review, the organization's policies and procedures were modified and all salary and wage charges to projects supported by Federal funds would be based on effort reported in employee timesheets. We did not expand our review to properly test the modified procedures. We will perform a follow-up review to assess the implementation of the modified procedures.

It is our understanding that employees maintain a record of their time and effort via the organization's electronic timesheet system (I-Employee). Upon arriving at work and returning from lunch, the employee must log in. The employee must log out when leaving for lunch and leaving for the day. Those employees who are on multiple projects and/or work in multiple departments must log in and out each time they switch projects and/or departments throughout the day.

March 26, 2009

Page 2

Timesheets automatically submit to the appropriate Department Head at the end of the pay period. The Department Head reviews the timesheet, makes any necessary changes, approves (electronically) and routes the timesheet to the Controller for processing of payroll. The Controller reviews all timesheets for errors such as incorrect division listed, etc. All changes to timesheets are tracked by the system by recording the date of changes and the name of the individual who made the changes.

MNA's payroll system was set to allocate salaried personnel's bi-weekly pay based on predetermined expectations of each employee's work schedule for effort supported by non-Federal funds. Allocations of effort supported by Federal funds for both salaried and hourly employee were based on hours recorded in the timesheets. Effort reported by hourly employees is rounded to the nearest quarter hour.

Wages charged to each project/division are recorded to MNA's general ledger from reports produced by the payroll software.

According to OMB Circular A-122, Attachment B, Paragraph 7(m), *Support of salaries and wages*, charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, except when a substitute system has been approved in writing by the cognizant agency.

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In order to support the allocation of indirect costs, such reports must also be maintained for employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate, (e.g., an employee engaged in both indirect activities and program/project activities).

Reports must meet the following standards:

- a. The reports must reflect an after-the-fact determination of the actual activity of each employee. **Estimates determined before the services are performed do not qualify as support for charges to awards.**
- b. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

March 26, 2009

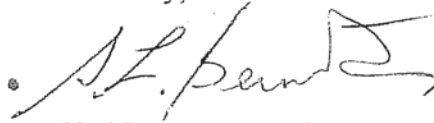
Page 3

- c. The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- d. The reports must be prepared at least monthly and must coincide with one or more pay periods.

OMB Circular A-122 further states that salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

If you have any questions, you may call Mrs. Laura Davis at (202) 606-8574 or email at ldavis@neh.gov.

Sincerely,



Sheldon L. Bernstein
Inspector General

cc:

████████████████████
██████████
Museum of Northern Arizona
3101 N. Fort Valley Road
Flagstaff, AZ 86001-8348