



OFFICE OF THE
UTAH STATE AUDITOR



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Utah State University Research & Development Audit Management Letter

For the year ended June 30, 2024

Report No. 24-30

Office of the Utah State Auditor

Audit Leadership:

Tina Cannon, State Auditor

Jason Allen, CPA, CFE, Audit Director

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**OFFICE OF THE
UTAH STATE AUDITOR**

Management Letter No. 24-30

March 6, 2025

Alan L. Smith, Interim President
Utah State University
1400 Old Main
Logan, UT 84322

Dear Interim President Smith:

This management letter is issued as a result of our audit of Utah State University's (University) portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2024. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. These reports will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance, both at the financial statement and at the federal program level, and the limited purposes of those considerations. The purpose of this letter is to communicate with University management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified a deficiency in internal control which, while not considered material, we consider to be significant enough to merit the further attention of management and those charged with governance (Finding 1). We also identified Finding 1 as an instance of noncompliance which we are required to report under *Uniform Guidance*.

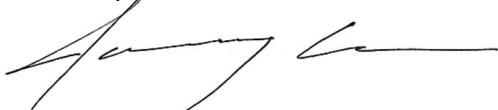
In addition, during our audit, we also became aware of a certain deficiency in internal control (Finding 2) that is an opportunity for strengthening internal controls and operating efficiencies.

The University's written response to and Corrective Action Plans for Finding 1 will be included in the final reports identified in the second paragraph above.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the effectiveness of the University's internal control over compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

We appreciate the courtesy and assistance of University personnel extended to us during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Jason Allen, CPA, CFE

Audit Director

801-808-0716

jasonallen@utah.gov

Cc: Lisa Berreau, Vice President for Research, Office of Research
Wayne Taylor, Executive Director of Sponsored Programs Accounting, Office of Research
Amber Buatte, Executive Director of Sponsored Programs, Office of Research
Dave Cowley, Vice President for Finance and Administrative Services
Wendy Keller, Controller
Jodi Bailey, Chief Audit Executive
Mica McKinney, Vice President for Legal Affairs & General Counsel, Office of Legal Affairs

Findings & Recommendations

Finding 1. USU Extension Extra Service Compensation Program Noncompliance with *Uniform Guidance*

(Finding Type: Significant Deficiency, Reportable Noncompliance)

Federal Agency: Various

Assistance Listing Number and Title: Various

Federal Award Number: Various

Questioned Costs: Undetermined

Pass-through Entity: Various

Prior Year Single Audit Report Finding Number: N/A

Utah State University's (University) Internal Audit performed a review of the University's Extension Service (Extension) within the College of Agriculture and Applied Science. The review determined that Extension's Extra Service Compensation (ESC) program violates *Uniform Guidance* requirements and University policy, bypasses critical internal controls, and provides employees with additional compensation for extra-service work related to their primary job duties without sponsor approval.

Extension's mission, under the University's land grant mission, provides research-based programs and resources to Utah's population using a mix of local, state, federal and sponsored funding. To incentivize its personnel to apply for grants, Extension created an ESC program that allowed personnel to replace a portion of their primary position institution-funded salary with grant-funded salary. Personnel could then request up to 20 percent of their primary position salary through an ESC secondary position funded with the replaced institution-funded salary. However, Extension's justified purpose for the ESC secondary position was "caused by and associated with the grant." In doing so, Extension made it possible to bypass the University's policy and internal controls for extra-service pay by obscuring the work duties and funding source for the secondary position. Below is an illustrative example from the USU Internal Audit Report of an ESC professor with an institutional base salary of \$50,000:

Payment to Employee Before Receiving Award

Primary Position	Extension Professor
Primary Work Assignment	
	<ul style="list-style-type: none"> • Extension (95%) <ul style="list-style-type: none"> ○ Provide the public with research-based information and university resources ○ Manage budgets and personnel

<ul style="list-style-type: none"> ○ Pursue internal and external funding opportunities ● Service (5%)
Employee Compensation
Departmental funding <u>\$50,000.00</u>
Total to Employee \$50,000.00

Payment to Employee After Receiving Award

Primary Position	Extension Professor
Primary Work Assignment	
<ul style="list-style-type: none"> ● Extension (95%) <ul style="list-style-type: none"> ○ Provide the public with research-based information and university resources ○ Manage budgets and personnel ○ Pursue internal and external funding opportunities ● Service (5%) 	
Employee Compensation	
Departmental funding	\$40,000.00
Grant funding	<u>\$10,000.00</u>
Total to Employee	\$50,000.00

Secondary Position	ESC
Secondary (ESC) Work Assignment	
<ul style="list-style-type: none"> ● Work caused by and associated with the grant 	
Employee Supplemental Compensation	
Departmental funding	\$10,000.00

	\$50,000.00
	<u>\$10,000.00</u>
Total to Employee	\$60,000.00

(Source: USU Internal Audit Report IAS-23-53)

Uniform Guidance maintains strict requirements with regard to the allowability of compensation, including special consideration for substantial increases, particularly with:

- federal award ratios (2 CFR 200.430(e)),
- institutional base salary charges, including federal award proportionate shares (2 CFR 200.430(h)(2)),
- prior approvals by federal awarding agencies for incidental activities with supplemental compensation (2 CFR 200.430(h)(1)),
- intra-institution consulting within higher education (2 CFR 200.430(h)(3)),

- institutional policy definitions to conclusively determine work resulting in extra service pay (2 CFR 200.430(h)(4), and
- relevant internal controls (2 CFR 200.302(b)(4)).

Internal Audit cites that the ESC program does not comply with *Uniform Guidance*, as well as University policy (Extra-Service Compensation Policy 376), which formalizes the University's approach to compliance with *Uniform Guidance* for these activities.

Internal Audit identified that University personnel did not follow or were unfamiliar with established policies in addition to procedural changes that did not require sufficient level of documentation for proper approvals. Detailed fieldwork by Internal Audit identified instances of questioned costs for funding (both federal and non-federal) in excess of \$25,000. Fieldwork covered the period between January 1, 2020 and June 14, 2023, but also identified evidence of noncompliance as far back as 2009 to 2018. After Internal Audit issued its report in September 2024, the University took action to begin determining the potential financial impact of noncompliance through an external third-party. A report by this external third-party has not been completed as of the date of this finding; therefore, the amount of questioned costs related to federal programs cannot be determined. The University has also taken steps to immediately address policy and control deficiencies across the institution.

Recommendations:

We recommend the University do the following relative to University-wide procedures:

1. Determine the potential financial impact of noncompliance with grant sponsors.
2. Evaluate and improve its policies and required documentation for extra-service compensation.
3. Evaluate and improve its internal controls for sponsored program compensation.
4. Provide adequate training to University personnel regarding sponsored programs compensation compliance.

USU's Response:

Utah State University ("USU") generally agrees with Finding One. As detailed in USU internal audit IAS-23-53, USU Extension established a program to incentivize and reward its personnel to apply for grants (referred to by Extension and within USU internal audit IAS-23-53 as the "incentive program"). While the Uniform Guidance permits incentive programs (see CFR 200.430(f)) and such programs are readily used by universities, the USU Extension incentive program was established and carried out in manner

that violated USU's policy governing extra service compensation ("ESC")¹ and in a manner that bypassed critical internal controls.²

Notably, USU Internal Audit IAS-23-53 tested compliance with USU's extra-service compensation policy but did not review actual costs charged to federal sponsors as this was outside the scope of the audit. Consistent with the recommendations to determine the potential impact of noncompliance, USU worked with an outside consultant to review payment of ESC to all employees working on federal grants. This work identified (1) limited instances when salaries directly charged to sponsored projects included extra service compensation in the base salary and (2) limited instances when extra service compensation was charged to federal sponsors without sponsor approval. The majority of ESC payments made pursuant the USU Extension incentive program was not charged to grant sponsor or included in the institutional base salary charged to the grant.

Accordingly, noncompliance with the Uniform Guidance clauses related to compensation costs³ was limited to a small subset of payments made under the USU Extension incentive program.

Based on these findings, USU agrees with the corrective actions recommended and, as outlined in the corrective action plan summary below, has already completed and/or initiated these actions.

Corrective Action Plan:

1) Potential Financial Impact

USU retained [Huron Higher Education Consulting](#) to conduct a Uniform Guidance compliance review of compensation costs charged to federal sponsors. Huron Consulting routinely works with Carnegie R1 institutions to review research compliance issues. Huron conducted a detailed review of an extensive data set for ESC payments made to USU employees, focusing on employees who had salary charged to federal grants or designated as a grant cost share.

¹ Consistent with federal requirements, USU's extra service compensation program is designed to compensate employees for overload work performed outside the employee's primary work responsibilities. The USU Extension program used this compensation tool to pay incentives to extension faculty. Documentation for ESC payments tested by the audit lacked sufficient information for the approver to determine whether the work was outside the employee's primary work assignment. In other tested instances, the grant work triggering the ESC payment was not outside the employee's primary work responsibilities.

² Extra service payments paid under the USU Extension program were routed through a non-research related approval chain.

³ These clauses include: 2 CFR 200.430(e): Special Considerations (addressing allowability of compensation that increases salary in ratio to the federal award); CFR200.430(h)(2) (providing that charges for work performed on Federal awards during the academic year are allowable at the institutional base salary (IBS) rate); 2 CFR 200.430(i)(1)(ii) (requiring written approval before charging supplemental compensation for incidental activities to federal grant; 2 CFR 200.430(i)(3)(requiring express and written authorization to charge intra-institution consulting to a federal award).

This review identified limited instances (1) when salaries directly charged to sponsored projects included extra service compensation in the institutional base salary and (2) when extra service compensation was charged to federal sponsors. Overall, the review found that the vast majority of USU ESC payments (referred to as secondary payments in the internal audit) were not charged to federal sponsored awards.⁴

Out of a total population of \$5.8 million ESC payments reviewed, the unallowed compensation costs related to ESC is approximately \$140,000. USU is in the process of addressing the unallowable compensation costs by removing unallowable charges on open awards and refunding unallowable charges on closed awards.

2) Policies and required documentation for ESC.

ESC Policies: USU is reviewing its policies associated with ESC and institutional base salary (IBS) (both currently defined in USU Policy 376: Extra Service Compensation). A working group has been established that includes the Provost's Office, the President's Office, the Office of Research and Human Resources to develop updated procedures for requesting ESC. Once in place, a new Extra Service Compensation website will be rolled out that will provide guidance on the policy, acceptable uses of extra-service Compensation, and training materials. In conjunction with the website development, a communication plan to inform stakeholders, especially approving department heads and administrators, will be developed.

Institutional Base Salary Policy and Procedures: USU will create and implement an Institutional Base Salary policy that aligns with federal requirements and industry best practices and specifically defines salary components and the associated pay codes that are included and excluded from an employee's institutional base salary. USU will also update its time and effort certification system with correct institutional base salary mapping.

3) Internal controls for sponsored program compensation

USU will implement the following improvements in its internal controls:

Revised ESC Form. USU has revised its ESC Form to include documentation / calculation demonstrating payment is commensurate with institutional base salary.

⁴ Unrelated to the extra service compensation issues that are the subject of the audit, the review also identified a small number of additional errors in salary coding and charges related to 4 employees. These issues will be addressed concurrently.

Revised ESC Application and Approval Process: USU has already updated the internal ESC review process to include appropriate controls to ensure that all ESC requests are reviewed for Uniform Guidance and USU policy requirements. In this regard, all ESC requests at USU are now reviewed by the Office of Sponsored Programs in the context of all funding sources associated with the applicant (including cost share indexes). This change directly addresses prior routing based on the source of funding which resulted in the Office of Research/Sponsored Programs being bypassed for state-funded ESC requests. Certification language has been inserted at appropriate approval levels to ensure that employees are not receiving ESC related to their primary position/workload.

Improved Definitions of Primary Work Statement: USU has initiated a collaborative effort between Human Resources, the Provost's Office, and the Office of Research to clearly define the primary work assignment for faculty via the role statement or annual work plans to clarify the full workload associated with the IBS.

Increased Compliance Monitoring: After-the-fact monthly review of ESC payments is being collaboratively performed between the Office of Research and Provost's Office. Additionally, USU has reorganized its operations to house post-award research administrators within the Office of Research and added an additional supervisory position to manage post award compliance and management. USU will charge central-post award research administrators with monitoring salary charges to sponsored awards and cost share accounts as a secondary internal control.

Research Incentive Programs: The Office of Research will establish permissible conditions and components for research incentive programs and any and all proposed programs will be reviewed and approved by the Office of Research before implementation.

4) Adequate training to university personnel regarding sponsored programs compensation compliance.

Uniform Guidance training for faculty and staff: USU is building and incorporating new training modules for those managing federal awards which will include guidance on allowable compensation costs and determining institutional base salary.

ESC Training: USU has developed a new required annual training for anyone requesting or approving ESC from all types of funding sources at USU (delivered via USU's Learn Blue system). This training addresses requirements for ESC and employees' role and responsibilities for compliance requirements. Additional training regarding time and effort certification will be developed.

Pay Code Training: USU will provide additional training and education for departmental and payroll staff responsible for coding and processing salary across the institution.

Responsible Person:

Lisa M. Berreau
Vice President for Research
Utah State University
435-797-3509

Anticipated completion date of corrective action plan: Actively in progress and full completion by Jan. 1, 2026.

Finding 2. Inadequate Documentation of Internal Controls Over Federal Equipment Management

(Finding Type: Other)

We noted the following control issues with the annual inventory process performed at USU:

- None of the three departments tested (Biology, Plant Soils and Climate, and Electrical and Computer Engineering) had the physical inventory memo signed by the department or by Equipment Management Services (EMS) for its annual inventory.
- The Biology department did not get sent the physical inventory memo due to the department moving buildings and the difficulty of tracking the items down.

According to USU's equipment procedure manual in Section I, an EMS Accounting Assistant is to perform the inventory on a fiscal year basis for all departments and direct the results to the department head to obtain a review and approval on an inventory memo. The EMS Manager is to follow up with the department and review and sign the final memo after it has been signed by the department head and returned to the Controller's Office. For the departments tested, EMS neither received a signed memo from the department head nor followed up with the department heads to obtain the approved memos. We noted the departments agreed with the inventory results.

Additionally, USU has not historically investigated the missing inventory and instead has written off the equipment from the books if not found within two years. Once the annual inventory was completed for all departments, it was noted that there was \$2,874,444 (acquired through federal and University funds) of unverified inventory for USU, of which \$1,148,048 was related to the biology department with the issue noted above.

2 CFR 200.313.d(2)&(3) states that "a physical inventory of the property must be conducted, and the results must be reconciled with the property records at least once every two years. A control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, damage,

or theft of equipment must be investigated. The recipient or subrecipient must notify the Federal agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program.”

Because the EMS manager is new to performing the review process, they did not document the review performed for inventory reviews when no issues were noted, nor did they follow up with the department heads for unreturned inventory memos.

If controls for inventory are not documented, there is no way to ensure that the controls are happening effectively and efficiently. This could lead to non-compliance with 2 CFR 200.313.d(2)&(3) and potential items of inventory, including those purchased with federal funding, could be missed and unaccounted for.

Recommendation:

We recommend that the annual inventory be properly reviewed with clear documentation supporting that review, and for USU to investigate items of missing inventory.

USU’s Response:

USU concurs with the recommendation.

Corrective Action Plan:

USU will clearly document the management review of the annual physical inventory and investigate lost items of inventory prior to removal from our asset records.

Responsible Person:

Gina Hooten, Manager
Cost Analysis & Equipment Management
Utah State University
435-797-1072

Anticipated completion date of corrective action plan: Jan. 1, 2026