Funding Faculty Self-Awards at Missouri S&T

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Executive Summary

Overview of the Faculty Self-Award Process

In the fall of 2014, the current leadership team at Missouri S&T contacted University of Missouri (UM) System leadership and proactively raised concerns with the current “Self-Award” process and the associated policy “The Non-GRA Supplement to Faculty Salaries Guidelines” (See Appendix A). In 2009, “The Non-GRA Supplement to Faculty Salaries Guidelines” (the Policy) was developed at Missouri S&T at the request of the Chancellor (at that time). The intent was to supplement faculty salaries when raises were limited and encourage faculty to secure soft dollar funding sources. The Provost (at that time) at Missouri S&T was charged with the development, implementation and oversight of the policy. The Provost led a committee with three department chairs to develop the policy.

The policy was based on allowing a “soft dollar” (gifts, grants, cost recovery, salary release funds, etc.) supplement to a faculty member’s annual Institutional Base Salary (IBS) merit increase. This self-award is limited to the dollar amount of increase provided through the annual merit increase process. For the FY 2015 budget 77 faculty submitted self-awards with an average cumulative self-award of $8,670 with a range from $808 to $25,290.

Issues Summary

- The current practice at Missouri S&T allows for the hourly rate increase of a faculty member’s annual base salary on soft dollars (federal grants, endowments, etc.) to exceed the hourly rate increase on general operating (GO) funding sources.
- This practice is not consistent with Federal Cost Accounting Standards and University Policy.
- The methodology used to allocate the funding source of self-awards for 57 faculty members identified questioned costs in the amount of $761,324 in salaries and benefits and $298,030 in indirect costs on federally funded projects.
- This practice creates inequity between faculties salaries based solely on funding sources and circumvents an appropriate merit review process.

Management Action Plan Summary

- Discontinued the current self-award policy.
- Addressing faculty salaries that have a self-award.
- Developing an incentive model to encourage growth in external funding.
- Disclosing the questioned costs to the University’s Cognizant Federal Agency.

Report Risk Rating: High

The financial and compliance risk is significant to the organization as the impact is high and the likelihood of additional oversight and follow up from the federal government is high.
Objectives, Scope and Methodology

The purpose of this review by the UM Office of Internal Audit and Consulting Services is to provide a summary of the issues identified with funding self-awards to faculty salaries at Missouri S&T, identify the dollar amount of self awards funded with federal dollars, and identify possible alternative models going forward.

Our review focused on the Policy which was effective from 2010 to 2015. However, since there were no merit raises in 2010 and 2011, the calculation of self-awards funded with federal dollars was focused on the four-year period of 2012 to 2015. While the Policy indicated a broader view of the self-award applicable to all soft dollars (gifts, grants, cost recovery, salary release funds, etc.), this review focused on self awards identified for faculty in years in which the faculty’s salary was fully funded or partially funded with federal dollars.

Observations

The current practice at Missouri S&T allows for the percentage of a faculty member’s annual base salary increase on soft dollars (gifts, grants, cost recovery, salary release funds, etc.) to exceed the pro rata share based on their IBS. This practice creates inequity between faculties salaries based solely on funding sources and circumvents an appropriate merit review process. The practice is not consistent with the cost principles contained in the OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and the University’s Institutional Base Salary Policy APM-60.37. (See Appendix B). The basic principle underlying the cost principles and University policy is salary cost increases must be shared equitably on a pro rata basis between institutional funds and grant funds. A disproportionate IBS percentage increase on a federal grant is unallowable.

An analysis was conducted for FY 2010- FY 2015 to determine the impact of the self-award model used at Missouri S&T. Any faculty funded with federal funds or cost share that received an IBS increase greater than their merit increase was considered and included in this review. The analysis identified 57 faculty members that received self-awards whom had a portion of their salary funded on federal grants, from 51 different sponsors.

In an effort to quantify the funding source of self-awards and identify the questioned costs, the sources of each faculty member’s full salary was analyzed and the self-award was then distributed on a pro-rata basis to the various soft dollar funding sources by faculty member. The federal fringe benefit rate, FICA, and the applicable federally negotiated indirect cost rate were added to the identified federally funded self-award amounts. Using this methodology for the four-year period of 2012 to 2015, the salaries and benefits portion of the self-awards funded with federal dollars totals $761,324. The associated indirect costs totals $298,030.
**Example of Self-Award Process**

Institutional Base Salary (IBS) - $100,000 ($50/hr)*

**IBS Funding Distribution** – 80% GO and 20% Federal Grant

**Merit Increase** - $2,000 or 2% - Split 80/20 between GO and Federal Grant ($1/hr increase)

**Self-Award Increase** - $2,000 or 10% IBS on Federal Grant ($5/hr increase)

**New IBS** - $104,000

**New IBS Funding Distribution** – 78.5% GO and 21.5% Federal Grant**

**New Hourly Rate** - $51/hr GO and $56/hr Federal Grant

*The hourly rate used is based on 2,000 hours and is used for illustrative purposes only as faculty are not paid based on hours.

**This represents an inequitable 10% increase on the grant fund and shows the “Self-Award” model allows soft dollar sources to disproportionately fund cost increases to base salaries. This unallowable increase is shown in red in the chart above.

A review of other Higher Education Institutions’ models was conducted and the results are included in **Appendix C**. No other institutions reviewed had a model that included self-awards funded by soft dollars; nor did any of the models reviewed resemble the Missouri S&T model in any other way.
The following provides a summary of common allowable approaches:

- The requirement for a portion of the faculty’s salary to be funded through University or state appropriations.
- The requirement for at least a specified percentage of the faculty’s salary to be replaced with the grant/sponsored funds.
- The amount of the incentive payment is calculated based on a specified percentage of the faculty’s salary recovered and is net of costs to replace the faculty’s contributions.
- The incentive payment source cannot be sponsored funds.
- The amount paid out annually per faculty member is capped at a specified amount.
- The incentive payment is typically one-time and not considered part of IBS.

**Example of Acceptable Process**

Institutional Base Salary (IBS) - $100,000

IBS Funding Distribution – 80% GO and 20% Federal Grant

Merit Increase - $2,000 or 2% (Split 80/20 between GO and Federal Grant)

New IBS - $102,000

New IBS Funding Distribution – 80% GO and 20% Federal Grant

One-Time Incentive - $2,000*

**Summary of Salary Increases:**

* This is **not considered part of their IBS** and is allowable. The payment is **funded from the general operating fund** through salary savings or Facilities & Administrative cost recoveries.
Agreed Upon Management Action Plan

1. Discontinued the current self-award policy
   Missouri S&T has already eliminated the current Self-Award policy.

2. Addressing faculty salaries that have a self-award
   Missouri S&T has committed to preserving the salaries for affected faculty members for an additional semester while developing a new model to be utilized going forward. For those with a self-award base on federally funded projects, the campus will utilize funding from non-federal sources through the end of the year and will comply with APM-60.37 in all other respects.

3. Developing an incentive model to encourage growth in external funding
   Missouri S&T has formed a committee that is working on a new incentive model that will be in place by the next semester. This model will be reviewed by UM System Human Resources and approved by the Chancellor and President.

4. Self-report the questioned costs to the University’s Cognizant Federal Agency
   Missouri S&T is working with the UM System Finance Office and General Counsel’s Office to self-report its findings and corrective action plan to the US Department of Health and Human Services. This will be completed by the end of 2015.
AUDIT TEAM INFORMATION

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NON-GRA Supplement to Faculty Salaries Guidelines

These guidelines formalize a process that has previously been utilized by some departments, which allow a soft dollar supplement to a faculty member's annual merit increase. The range of increase is determined by the department. For many departments, the range of increase is a maximum equal to the General Revenue Allocations (GRA) rate dollar merit increase. For example, if a faculty member's regular GRA annual salary was $100,000 and s/he was designated to receive a 2% merit increase, s/he could supplement that GRA increase with soft dollars up to a maximum of $2,000 (a 1:1 dollar match).

1. Each year, the GRA dollar merit increase would continue to be based on the GRA portion of the faculty member's salary. The faculty member could match up to that GRA dollar amount from soft dollar sources. The soft dollar portion remains separate and does not enter into the total GRA dollar pool available to the department for annual merit increases.

2. If, at some point, the faculty member is unable to cover the soft portion of his/her salary, then the 1.0 FTE salary reverts back to the GRA portion. If in the future the faculty member has more soft funds available, s/he can reinitiate a match in any amount up to the dollar amount matched before the interruption in funding. For example, Joe is providing $5,000 in supplemental salary each year but hits a year where he can provide only $4,000. His salary reverts to only that provided by GRA funds (i.e., his total salary is reduced by $5,000). Then if he generates soft dollars for the next year, the supplement is limited to $5,000 plus the supplemental amount matching the GRA raise he gets the next year (assuming a 1:1 match of the GRA raise is allowed).

3. The department will not cover any lost soft dollar portion of the salary. If the faculty member cannot cover it, s/he loses it.

4. The total amount of funds needed for 9 months (or 9 months + summer, if applicable) must be available at the start of the faculty appointment year (1 September) for the entire contract period (9 months or 9 months + summer), i.e., all funds needed to cover the soft money compensation must already be in-hand 1 September. If these funds are used for salary supplements, the department will be liable if the account becomes deficient before the end of the year. But even then, the account holder (faculty member) could use the to-date unused portion of the account for another purpose, leaving the account deficient and making the department liable for the deficient amount.

5. Each department should establish its own guidelines that require the faculty member to show some history of soft dollar sources. This would prevent this program from becoming nothing more than an inconsistent series of one-year bonuses.

6. Some endowments (chairs and professorships) permit the earnings to be used for salary supplement and some do not. Before the faculty member holding an endowed position can designate some of the account earnings for salary, Development will need to confirm that the earnings can be used for this purpose. Faculty members who choose to supplement their salary from professorship or chair endowment earnings need to clearly understand that doing so will likely reduce their discretionary funds. Earnings available from the endowments are a function of the market interest rate and one cannot count on every year producing high earnings. Cautious use of these funds is recommended.

7. SRI, fixed-price residuals, and distance learning funds may be used to supplement salaries. Phonathon funds shall not be used to supplement salaries.

8. Adding supplemental funding after the start of the contract year will not be approved.

9. The soft money portion of a faculty member's compensation must be viewed as a part of their salary, not as extra compensation. They must not receive this as a lump sum payment.

This program does not affect the current practice of allowing individuals to cover all or a portion of their summers with soft dollars.
General Policy and Procedure Overview

This policy defines the components of Institutional Base Salary (IBS), to explain the relationship between IBS and Total Allowable Salary, and to formalize practices and procedures for the consistent budgeting and expensing of salaries and effort reporting in compliance with federal regulations, including those issued by the Office of Management and Budget (OMB) and the National Institutes of Health (NIH).

Definition of Key Terms:

Faculty Practice Plan: the portion of the faculty salary paid through the University of Missouri faculty practice plans (i.e., UMKC Dental Faculty Practice Plan, University Physician Practice Plan, UMSL Clinical Psychology Faculty Professional Practice Plan).

Administrative Stipend: the payment for performing administrative duties such as chairing a department or directing a program.

Incentive Component: a bonus or incentive payment for exceeding performance goals or satisfying other criteria established by a faculty practice plan and approved by the University.

Temporary Extra Compensation: compensation approved for a temporary period for assuming additional responsibilities, such as teaching an extra class.

Incidental Payments or Honoraria: for one-time activities not included within the normal workload.

Veterans Administration (VA) Salary: salary paid directly by the VA for VA appointments.

Detailed Policy and Procedure:

Institutional Base Salary (IBS) is the annual compensation paid by the University through a school or college or an administrative unit for an individual’s professional services, whether they consist of research, teaching, clinical or other activities, and whether the individual is employed full-time or part-time. The IBS is established annually and confirmed by letter to each faculty member who falls under the scope of this policy, and is identified in the PeopleSoft system for all University employees. IBS may not be increased solely as a result of the University having received an externally sponsored award.

The IBS salary sources on which committed and actual effort should be based include:
- University base salary
• Clinical base salary
• Administrative Stipends
• Summer Salary

The IBS excludes the following salary components:
• Temporary extra compensation
• Incidental payments or honoraria
• Incentive payments under a faculty practice plan
• Veterans Administration (VA) salary

Salary charges made to sponsored projects must be calculated pro rata based on the IBS, with the salary billed to the sponsor being directly proportional to the effort devoted to the project. If the sponsoring agency has a salary cap, then the portion of an individual’s salary in excess of the cap is considered an unreimbursable cost. The portion of salary over the cap should be charged to a cost sharing chartfield of the project. The sponsor will therefore, not be billed for the portion in excess of the cap.

Faculty members on nine-month contracts may be compensated for work on sponsored projects during the summer, with the salary based on the IBS of the previous academic year and the level of summer effort devoted to the project. Charges to sponsored awards for summer salary must take into account commitments to summer instruction or administrative responsibilities as they may apply in individual cases. Sponsoring agencies may also limit summer compensation.

Responsibility:

**Chairs, Deans and/or Provost Office**
- Ensures that faculty are notified whenever there are changes to their approved institutional base salary.

**Principal Investigator**
- Ensures that all requests for salary support in sponsored project proposals are based on the individual’s correct IBS, or in cases where the IBS exceeds the federal salary cap or any other sponsor limitation, the salary cap or limit amount is used instead of the IBS. At the option of the PI and when permissible under sponsor guidelines, the budget may reflect the full IBS in cases where a legislatively mandated cap applies. The sponsor will then adjust the budget accordingly upon issuance of the award.

**Department Administrator**
- Ensures proposal budgets include accurate salary requests.
- Ensures that entries into the Job Earnings Distribution (JED) are correctly based on the individual’s IBS.
- Retains copies of appointment letters and documented changes in the IBS for audit purposes.

**SPO**
- Reviews and approves proposals (including budgets) requesting funding from external sponsors.
- Monitors compliance with salary cap.
Questions and Comments?
Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.
APPENDIX C

Summary of other Higher Education Institutions’ models

Virginia Tech:

http://www.provost.vt.edu/faculty_affairs/personnel_actions/research_incentive_program/research_incentive_plan.html

- The incentive program is a one-time annual supplement to the recipient’s regular annual compensation.
- This is not to be included in the retirement base salary. However, the incentive payment is subject to the applicable federal and state taxes and FICA withholdings.
- The sponsored research funds cannot be used for research incentive payments; only university funds may be used for this payment.
- At least 10% of the salary must be charged to the competitively awarded sponsored grant or contract during the previous fiscal year.
- Documentation of salary cost savings from grant award must be calculated. The amount of incentive payment equals 50% of the salary recovered based on the percentage of salary funded on the grants above the 10%.
- The department/college retains the 10% salary recovered, along with 50% of the additional salary recovered.
- For calendar year faculty appointments, costs incurred to replace faculty member’s contribution (i.e. adjunct faculty to each classes) are excluded from the research incentive calculation.

Boise State University:

http://research.boisestate.edu/faculty-incentive-pay-program/

- The incentive payment is limited to up to 50% of the net recovered salary and cumulative payments cannot exceed 25% of institutional base salary.
- A portion of the recipient’s salary must be paid from state appropriated funds. Only the portion of salary supported by state appropriated funds can be used as the base of the incentive calculation.
- Costs incurred to replace faculty member’s contributions (i.e. adjunct faculty to each classes) are excluded from the research incentive calculation. Other costs incurred by the department for support of the sponsored project that are not recovered elsewhere may also be excluded.

University of Chicago:

http://humanresources.uchicago.edu/fpg/policies/300/p305.shtml

- The incentive payment is nondiscretionary, formula driven, and tied to expected results identified at the beginning of a performance cycle with a defined plan.
- The incentive payment is in addition to an employee's base pay and is distributed at specific predetermined timeframes.
- Faculty performance is measured against the goals and objectives of the predetermined plan.

**University of Texas at El Paso:**


- A portion of the recipient’s salary must be paid from state appropriated funds. Only the portion of salary supported by state appropriated funds can be used as the base of the incentive payment calculation.
- The sponsored research funds would not be used for research incentive payments; only university funds may be used for this payment.
- The incentive payment is limited to up to 50% of the net recovered salary. Cumulative payments cannot exceed 25% of institutional base salary.
- This is not to be included in the retirement base salary. However, the incentive payment is subject to the applicable federal and state taxes and FICA withholdings.
- Costs incurred to replace faculty member’s contributions (i.e. adjunct faculty to each classes) are excluded from the research incentive calculation. Other costs incurred by the department for support of the sponsored project that are not recovered elsewhere may also be excluded.

**University of Iowa:**

[http://aaup.org.uiowa.edu/faculty-salary-incentivebonus-programs](http://aaup.org.uiowa.edu/faculty-salary-incentivebonus-programs)

- The incentive payment is a lump sum amount for faculty who generate 50% or more of their salary from extramural grants or contracts.
- The incentive is paid annually, based on achievement of previous year’s goals.
- Faculty having between 35% and 50% of their salary generated from extramural grants or contracts are eligible for enrichment account contributions.
- The lump sum incentive payment is a predetermined flat amount based on the percentage of salary offset. For example, 50-59% salary offset results in $5,000 lump sum incentive payment; and 60-69% salary offset results in $10,000 lump sum incentive payment.

**Texas Tech University:**

[https://www.ttuhsc.edu/sah/faculty/documents/10_Faculty_Incentive_Plan.pdf](https://www.ttuhsc.edu/sah/faculty/documents/10_Faculty_Incentive_Plan.pdf)

- The incentive payment is 30% of the recovered salary and fringe benefits.
- Costs incurred to replace faculty member’s contributions (i.e. adjunct faculty to each classes) are excluded from the research incentive calculation.
- Faculty must match their percent of university salary on the grant with the percent effort on the grant to be eligible for the incentive.
University of Pittsburgh School of Medicine:

http://www.medfaculty.pitt.edu/directory/compensation-and-incentives/

- The Research Incentive Plan is for faculty who have received a competitive research grant or contract from outside sponsored funding. It allows for a choice between an annual direct payment or payment of funds into a restricted account for research expenses.
- Grants for which salary is cost shared are not eligible. Faculty must match their percent of university salary on the grant with the percent effort on the grant to be eligible for the incentive.
- Faculty must have at least $50,000 and at least 75% of their University annual base salary charged to research grants to be eligible to receive an incentive payment that is 10% of the indirect cost recovery.
- Faculty who have at least $50,000 and between 70% and 75% of their University annual base salary charged to research grants will be eligible to receive an incentive payment that is 5% of the indirect cost recovery.
- There is a $50,000 annual cap for all incentive payments to each faculty member.

Sul Ross State University:

http://www.sulross.edu/sites/default/files//sites/default/files/users/docs/grants_ofc/incentive_compensation_for_research_grants.pdf

- Incentive compensation requires at least 25% salary to have been charged to externally sponsored program funds.
- The incentive payment is 35% of the recovered salary savings for grants with an indirect cost recovery rate higher than 20%.
- For Chairs/Directors, eligibility is based only on the faculty portion of their salary that is tied to instructional duties rather than administrative duties.