



How to Audit Proof Your Department

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Introductions



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Objectives



Understand the key audit issues in award management, including documentation, cost allowability and allocation, adhering to special provisions, and internal control deficiencies.



Identify audit pitfalls and identify ways to manage them.



Review internal controls and address ways to close gaps in internal controls.



Recognize the various roles and responsibilities in an audit.



Take away "lessons learned" from federal audits to help your institutions manage the high risk financial issues in award management.

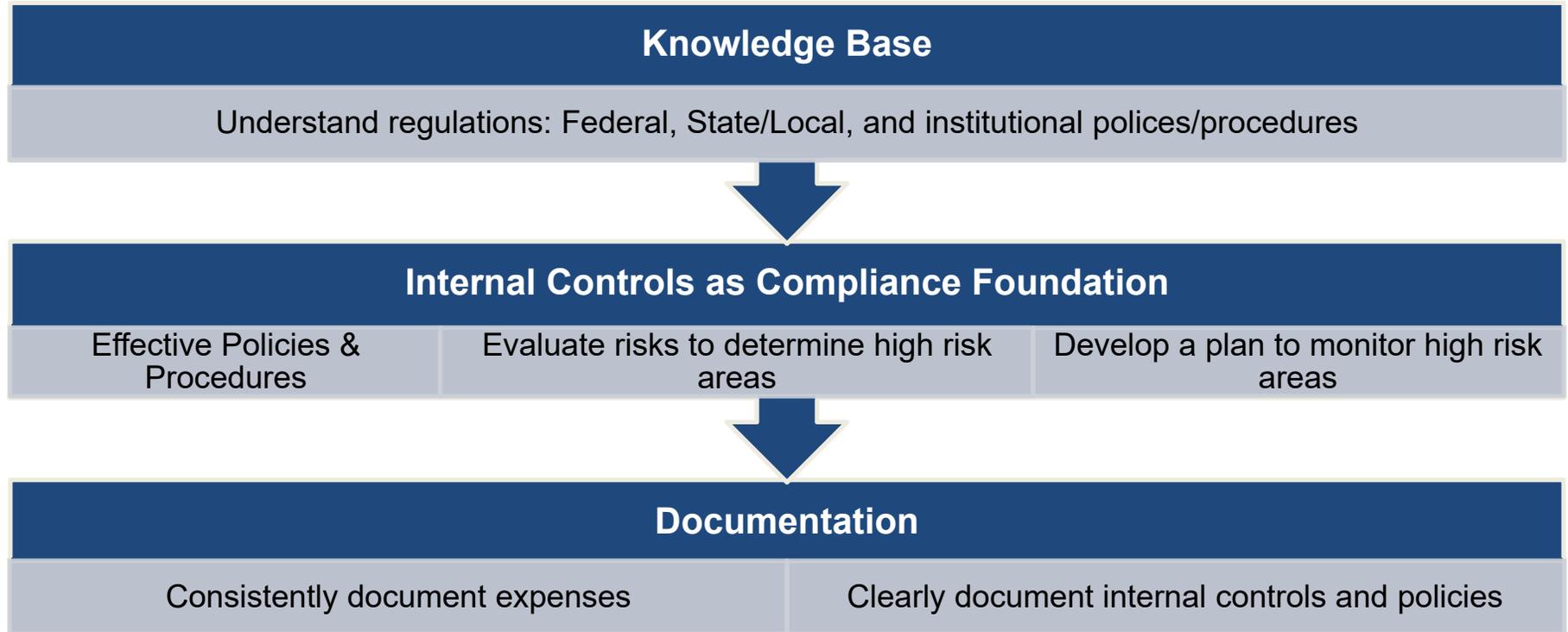


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Establishing an Audit Proof Compliant Environment



Audits and Stewardship

- Know who the auditors are:
 - Internal
 - External
 - Government (including OIG)
 - Auditors on behalf of the Federal sponsors
 - Other sponsor, etc.
- Audit vs. Investigation vs. Review

Audits and Stewardship

- Know what's being audited:
 - Systems
 - Controls
 - Federal awards, specific awards, etc.
 - Deadlines
- Stewardship begins at proposal stage
 - A well-written proposal that discloses true costs can support post award activities.

The backbone of compliance

INTERNAL CONTROLS + REGULATORY FRAMEWORK



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Internal Controls per Uniform Guidance

Definition (200.61)

- Processes designed to provide reasonable assurance of achieving the following:
 - Effective and efficient operations.
 - Reliable financial reporting for internal and external use.
 - Compliance with laws and regulations.

Internal Controls COSO Framework



Control Environment: Sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.



Risk Assessment: Institution's identification and analysis of risks relevant to the achievement of its objectives, forming a basis for determining how the risks should be managed.



Control activities: Policies and procedures that help ensure that management directives are carried out.



Information and communication: Identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.



Monitoring activities: Process that assesses the quality of internal control performance over time.



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Internal Controls per Uniform Guidance

Requirements (200.303)

- **Must** maintain effective internal control over the federal award that provides reasonable assurance.
- **Should** be compliant with COSO and Standards for Internal Control in the Federal Government (the “Green Book”).
- **Must** comply with, evaluate, and monitor compliance of federal statutes, regulations, and the terms and conditions of the federal awards.
- **Must** take prompt action when non-compliance is identified.
- **Must** take reasonable measures to safeguard personally identifiable information and other information designated as sensitive.



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Internal Control Checks and Balances

- Multi-level reviewers/approvers – each role has responsibilities for checks and balances.
- Know what you are submitting/approving/certifying.
 - It **can** be charged there, but **should** it be?

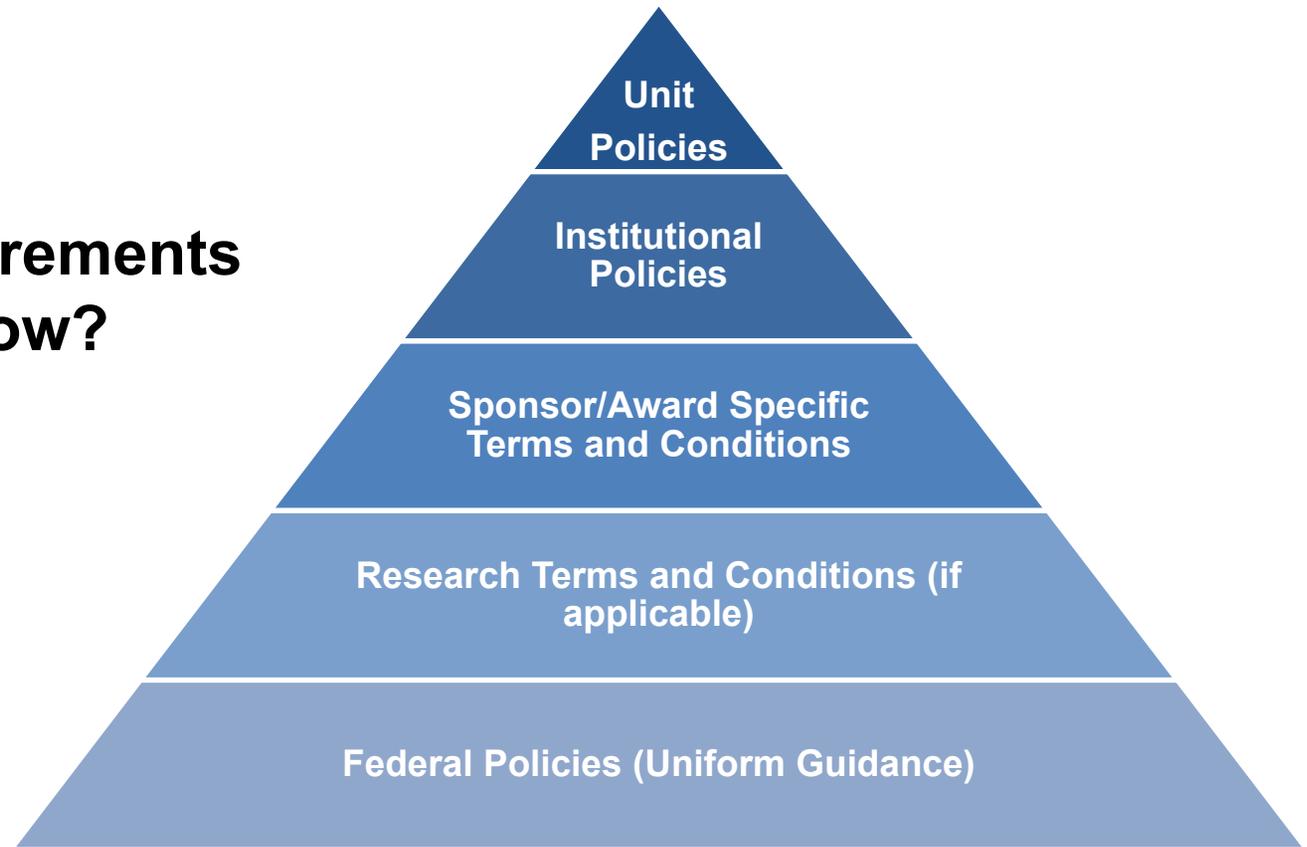


Key Indicators of Strong Internal Controls



Regulatory Framework

Which set of requirements do we need to follow?



Dissecting the audit

AUDIT LIFECYCLE + ROLES



The Audit Life Cycle

Transaction

- Evaluate for allowability and reasonableness before processing
- Collect backup documentation and file it
- Review and evaluate the transaction before approving

Reconciliation

- Confirm expenses are recognizable, right, reasonable, and reviewed
- Correct errors that are identified
- Document reconciliation completion

Audit

- Notification – often not much time to prepare
- Fieldwork – auditor gathers information
- Assessment – auditor may send a report of their findings or you may receive nothing

Resolution

- Submit response
- Remove disallowed expenses if necessary
- Corrective action plan
- Worst case scenario – possible fine or other consequence



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Roles in an Audit

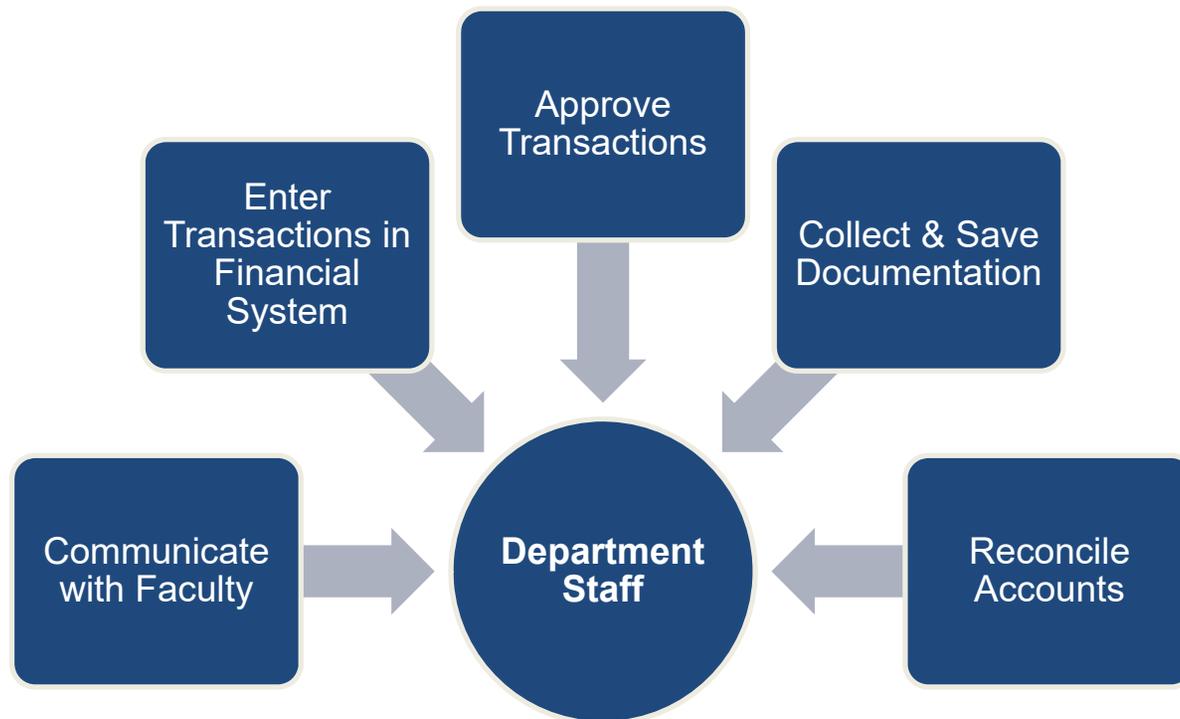
PI	Department	Central
<ul style="list-style-type: none">• Provides explanation of direct benefit to the awards	<ul style="list-style-type: none">• Communicate with faculty• Enter transactions in financial system<ul style="list-style-type: none">– Approve transactions– Collect & save documentation– Reconcile accounts	<ul style="list-style-type: none">• Primary auditor contact• Coordinates the audit• Reviews and submits audit documentation



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The Crucial Role of the Department Administrator

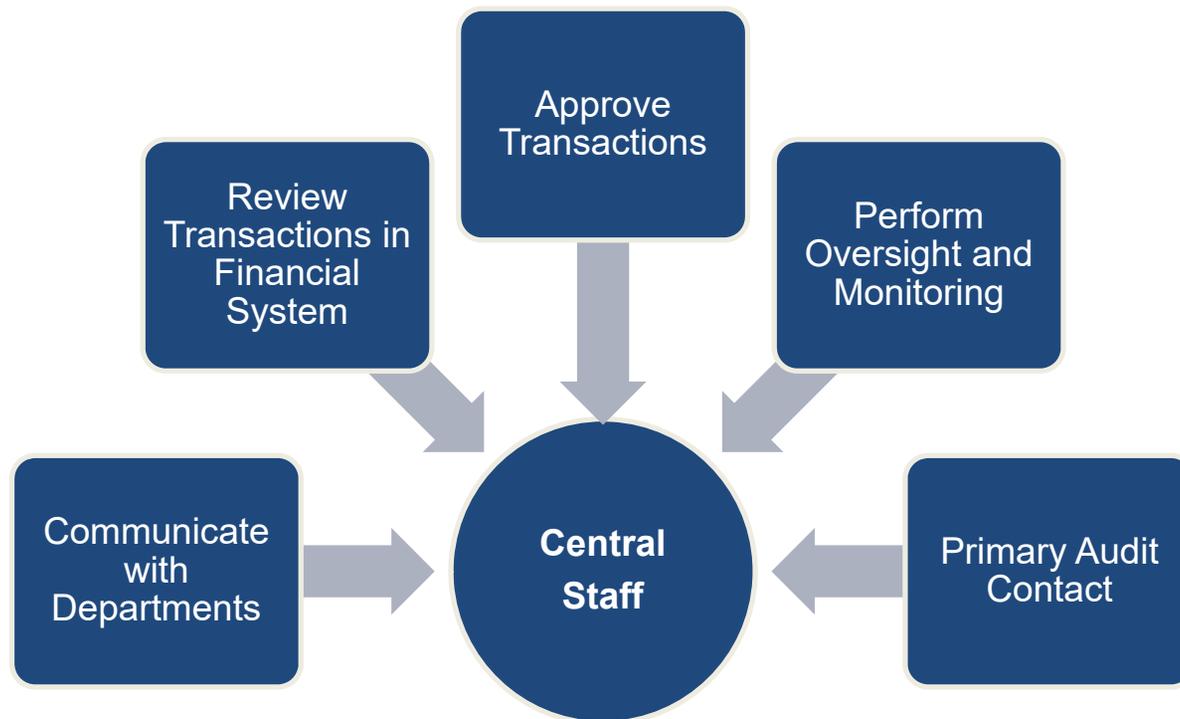


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The Crucial Role of the Central Staff



Real Life Audit Scenarios and Approaches

EXAMPLES



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External Audit Example

NIH OIG Subrecipient Monitoring Audit

- Audited period: 2 years
- All incoming and outgoing expenditures were submitted for review and sampling.
- Testing –
 - Incoming (as sub): 30 selections
 - Outgoing (as prime): 30 selections

Audited Areas - HHS Subrecipient Monitoring

	INCOMING (as Sub-awardee)	OUTGOING (as Pass-through Entity)
Sampled Amount	30 samples	30 samples
Salaries and Wages	Employees - Institutional Base Salary and Effort for exempt - Hourly rate for non-exempt	Subrecipient's employees per invoice - Institutional Base Salary and Effort for exempt - Hourly rate for non-exempt
Fringe Benefit Charges	Calculated fringe benefit charges per negotiated rate	Verified fringe benefit charges per sub's negotiated rate or <u>direct charge benefit categories</u>
F&A Rates	Calculated to verify F&A rates	Calculated to verify sub's F&A rates
Risk Assessment	N/A	Audited sub's risk assessment for <u>both</u> pre-award and post-award
Other Non-Salary Charges	Equipment, supplies, travel, etc. - Supporting documentation is essential	Supplies, travel, etc. per sub's invoice - Supporting documentation required per invoice

External Audit Example

NSF Data Analytics Audit

Examples of Audit Reports Released		
UCLA	Carnegie Mellon	Stanford
UCSB	Indiana U	UC Davis
Univ of Illinois	Florida State	U Michigan
NYU	Georgetown	UCSD
Virginia Polytechnic & State Univ	Columbia	Texas A&M
Michigan State	Wisconsin	USC
Univ of Florida	UC Berkeley	Northwestern

NSF OIG Audits – Going Forward

- Greater emphasis on overseeing institutions not identified as high risks (e.g. low and mid-range NSF-funded institutions).
- Focus on assessment and tailoring approaches to specific issues.
- NSF OIG staff will conduct more audits in-house instead of utilizing contractors that require training or monitoring by NSF OIG staff.

Reference: NCURA Magazine, August 2018 and August 2019

External Audit Example

NSF Data Analytics Audit

- Audited Period: 3 years
- All GL expenditures submitted for audit.
- 220 GL and 30 payroll transactions selected for testing.
- Thousands of institutional hours devoted.

Hot Topics – NSF Data Analytics Audit

- **Period of Performance (POP):** Expenses charged near or after end of awards.
- **Unsupported charges:** Insufficient documentation to support the expense.
- **Specific Categories**
 - Tuition, Travel, Equipment, Subawards, Unallowable Costs, Visa costs, Cost transfers
- **Violating own policies:** Institution unable to follow own policies, even if UG and agency policies have been followed.
- **Indirect Costs (IDC):** Misapplication of IDC, Capital Account Code must be used for eligible equipment over the capitalization threshold; IDC cannot be claimed for capital equipment.



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External Audit Example

Annual Single Audit

- Required for a non-Federal entity expending \$750k or more in Federal awards during the auditee's fiscal year.
- Uniform Guidance Subpart F sets out responsibilities of auditors and auditees.
- Annual compliance supplement issued by OMB.
 - 2019 Example: https://www.whitehouse.gov/wp-content/uploads/2019/07/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_2019_FINAL_07.01.19.pdf

Audit Types from Compliance Supplement

Type	Control
A, B	Allowable Costs and Cost Principles
C	Cash Management
F	Equipment and Real Property
G	Matching and Earmarking – Cost share
H	Period of Availability
I	Procurement and Debarment – Bids or sole source justification
J	Program Income
L	Reporting
M	Subrecipient Monitoring
N	Special Test and Provision – Personnel salaries, effort, and commitment

Annual Single Audit – PI Interviews

- Advanced preparation strongly recommended.
- Ask the auditor if questions can be provided in advance for preparation; if not, an internal control review is recommended.
- A department administrator and post-award central administrator should accompany the PI.
- When responding to questions:
 - Be truthful and concise
 - No need to offer additional information
 - No need to fill in the silence



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Hot Topic: Auditor's Focus – Capital Equipment



Follow the University's policy regarding the definition of capital equipment (e.g. what is the threshold?). It is critical the account code is used correctly for equipment.

Examples

- Equipment purchased or received after award date.
- Equipment ordered within the last three months of the award.
- Capital account code not used for equipment purchase over the capital threshold
- Warranties and supplies under the threshold coded as capital equipment.
- Lack of prior approval and justification for capital equipment purchases on projects with no capital equipment budget.

Purchase Example 1

Request to purchase an N-Series Centrifuge in the last month of a project, cost: \$12,000

“The purpose of this NIH grant is to study human vascular disease. The aim is to use patient's blood to develop PSQ, then differentiate PSQ to vascular cells. For this purpose, we need to collect blood from 10 patients, and the blood must be processed in an N-Series Centrifuge. Unfortunately, this work took much longer time than we expected since there were not many eligible patients available, so the project was delayed. Although the grant is ending at the end of this month, the experiments and sample processing will continue past this month, so we still need the N-Series Centrifuge and we want to charge it to the NIH grant.”

Purchase Example 2

Request to purchase centrifuge tubes in the last month of a project, cost: \$5,000

“We need these specialized coated centrifuge tubes to confirm that our PSQ differentiated to vascular cells correctly (aim #3 of the NIH grant). I confirmed with the vendor that the tubes will arrive on the 10th of this month, and it will only take us 3 days to complete the experiments. The tubes are disposable and will be discarded when the experiments are completed, and they will only be used for our NIH project.”

Hot Topic: Auditor's Focus – Cost Transfers



Cost transfers are used for correcting errors and should not be used as a means of managing available balances. For late cost transfers, providing justification and backup documentation is essential.

Examples

- Missing documentation/justification for transfers making it difficult to identify actual cost and purpose; this causes disallowance of the questioned cost.
- Thoroughly written justification is essential – tell the story (we all make mistakes) of why it happened and how it can be prevented moving forward.
- Bulk deficit removal transfers to another sponsored project – should be itemized by expenditure for system integrity.



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Cost Transfer Red Flags

- ❑ Transfers not following own university's policy.
- ❑ Transfers without full explanation or cookie-cutter explanations.
- ❑ High-volume transfers.
- ❑ Timing (i.e. near the end of the project) and direction of transfers (i.e. onto sponsored projects).
- ❑ Transfers among closely related projects.
- ❑ Grant to grant transfer.

Cost Transfer Justification

Who are you writing to?

- Form should be completed as if you were explaining to an auditor.
 - Federal granting agency (NIH, NSF, DOD, DOE, etc.)
 - University-hired external auditor
 - ***hint*** audits occur all the time
- Tone should convey why and how this was corrected.
 - Corrective action plan – you have put a process in place to avoid future occurrences.
- Open audience: explanation should be clear to anyone who reads the journal (including future reviewers who can no longer contact the original submitters).

Late Cost Transfer - Discussion

“Lab services were charged to this project but shouldn’t have been. This journal corrects that mistake. It won’t happen again.”

Q: What is missing from the above?

Late Cost Transfer - Discussion

“Animal phenotyping core services for Jon Snow were charged to project X back in October, however, Jon works on project Y and the service benefited Y project. Reconciliation is now being done monthly rather than quarterly to eliminate the future need for this type of transfer.”

Q: Will you approve this cost transfer?

Other Hot Topics

- Travel
- Tuition
- Purchasing Cards
- Bypassing official systems for purchases
- Dividing expenses between multiple grants
- Effort reporting/compensation for personal services
- Segregation of Duties



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Segregation of Duties

In May 2010 and continuing through July 31, 2018, an administrator defrauded a University in excess of approximately \$300,000 through various means. On many occasions, the individual hired contractors and other service providers to perform personal services for her benefit, and at her personal residence.

She would then create, submit and approve false invoices and false W-9 tax forms for these contractors and other service providers to make it appear as if they had performed work for the Division when they had not. She approved and processed payment to these contractors and other service providers from University's funds.

Hot Topic Discussion - Documentation

- Documentation is a thread through all audit topics.
- Remember your **DD**'s – If you **D**o it, **D**ocument it!



Supplemental Material for Reference

Audit Documentation Suggestions by Expense Category

DOCUMENTATION



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Documentation: Salary

- Summary page/cover memo containing:
 - Grant Transaction #, Date, and Amount
 - Description and justification for a charge (including sick/vacation days)
- G/L for the expense.
- Support showing the compensation percent allocation and that the payment was made to the appropriate person.
- Support for the annual pay rate in a timeframe of selected expense.
- Description of person's role on the grant and evidence of that role in grant documents. Show support for the individual's role/position and how it agrees back to the grant budget (e.g. budget page showing the named employee or their position).
- Fringe selections:
 - Provide the fringe rate used to calculate the fringe expense
 - Explain how this is appropriate based on the type of employee classification

Documentation: Travel

- Summary page/cover memo with description and justification for the charge.
- G/L for the expense.
- Purchase requisition including approval.
- Expense report including receipts/invoices related to the expense selected for testing.
- Documentation/Explanation supporting the purpose of travel (e.g. brochure for research seminar) and its relation to the grant. Show that travel has been budgeted for in the grant budget.
- Support that the individual charging travel works on the grant. Show that the individual's role is supported within grant documentation/budget.

Documentation: Consulting and Subagreement

- Summary page with description and justification for the charge.
- G/L for the expense.
- Purchase requisition including approval.
- Invoice.
- Original consulting/subrecipient award agreement & any amendments as necessary.
- Description of services and support for relation to the grant, including budget backup from the grant documentation.
- Vendor justification form and suspension/debarment certification support, if applicable.
 - If you do not have suspension/debarment certification and/or VJF provide an explanation as to why.

Documentation: Equipment

- Summary page with description and justification for the charge.
- G/L for the expense.
- Purchase requisition including approval
- Invoice.
- Proof of delivery (e.g. picking list with receiving stamp, delivery memo)
- Check request.
- For purchase of new equipment, documentation of any approval required.
- Tagging form.
- Description of item and support for relation to the grant, including grant budget page with item listed or with equipment budget total shown.
- Vendor justification form and suspension/debarment certification support, if applicable.
 - If you do not have suspension/debarment certification and/or VJF provide an explanation as to why.



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Documentation: Scholarship Transaction

- Summary page with description and justification for the charge.
- G/L for the expense.
- Copies of the written scholarship/trainee agreements or statement of appointment form.
- Proof of payment and approval of expenditure.
- Performance evaluations for the period (evidence the trainee is progressing satisfactorily through the program), where applicable.
- Copy of the Exit Certification for each trainee selected, where applicable.
- Support that the scholarship is included in the grant budget.

Questions?