

# How to Audit Proof Your Department

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# Objectives

- Audit overview
- Learn about audits and the audit lifecycle
- Understand your role in the process
- Identify some of the most common audit findings
- Discuss real examples of audit findings and evaluate solutions
- If you Do it, Document it!

# Audits and Stewardship

- Know who the auditors are:
  - Internal
  - External
  - Government (including OIG)
  - Other sponsor, etc.
- Audit vs. Investigation vs. Review
- 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

# External Audit - Example

- NIH OIG Subrecipient Monitoring Audit Example
  - 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
    - Expenditures: ~\$2 million

# Audited Areas – HHS Subrecipient Audit Example

	<b>INCOMING (as Sub-awardee)</b>	<b>OUTGOING (as Pass-through Entity)</b>
<b>Sampled Amount</b>	30 samples	30 samples
<b>Salaries and Wages</b>	Employees <ul style="list-style-type: none"> <li>- Institutional Base Salary and Effort for exempt</li> <li>- Hourly rate for non-exempt</li> </ul>	Subrecipient’s employees per invoice <ul style="list-style-type: none"> <li>- Institutional Base Salary and Effort for exempt</li> <li>- Hourly rate for non-exempt</li> </ul>
<b>Fringe Benefit Charges</b>	Calculated fringe benefit charges per negotiated rate	Verified fringe benefit charges per sub’s negotiated rate or <u>direct charge benefit categories</u>
<b>F&amp;A Rates</b>	Calculated to verify F&A rates	Calculated to verify sub’s F&A rates
<b>Risk Assessment</b>	N/A	Audited sub’s risk assessment for <u>both</u> pre-award and post-award
<b>Other Non-Salary Charges</b>	Equipment, supplies, travel, etc. <ul style="list-style-type: none"> <li>- Supporting documentation is essential</li> </ul>	Supplies, travel, etc. per sub’s invoice <ul style="list-style-type: none"> <li>- Supporting documentation required per invoice</li> </ul>

# External Audit Example – NSF Data Analytics Audit

Examples of Audit Reports Released		
UCLA	Carnegie Melon	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

# External Audit Example - NSF

- NSF Data Analytics Audit
  - Audited Period: 3 years
  - All expenditures were submitted for audit
  - 220 GL and 30 payroll transactions
  - Duration: 3 years
  - Thousands of hours devoted

# Hot Topics – NSF Data Analytics Audit

1	Equipment (e.g., computing Device) or supplies charged near or after end of awards.
2	Misapplication of Indirect Costs (IDC) - Capital Account Code must be used for eligible equipment over the capitalization threshold. Indirect Cost cannot be claimed for capital equipment.
3	Unsupported tuition charges. Tuition must follow payroll.
4	Unreasonable, Unallowable, or Unsupported Travel Costs
5	Unsupported or Incorrect Charges to Participant Support
6	Unsupported Cost Transfers
7	Violating own policies
8	Unallowable costs: Alcohol, Gift, Promotional, Meals, etc.
9	Unreasonable/unsupported allocation
10	Visa costs



# 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](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 (Categories) from Compliance Supplement

Type	Control
<b>A, B</b>	Allowable Costs and Cost Principles
<b>C</b>	Cash Management
<b>F</b>	Equipment and Real Property
<b>G</b>	Matching and Earmarking <ul style="list-style-type: none"><li>• Cost share</li></ul>
<b>H</b>	Period of Availability
<b>I</b>	Procurement and Debarment <ul style="list-style-type: none"><li>• Bids or sole source justification</li></ul>
<b>J</b>	Program Income
<b>L</b>	Reporting
<b>M</b>	Subrecipient monitoring
<b>N</b>	Special Test and Provision <ul style="list-style-type: none"><li>• Personnel – salaries, effort, and commitment</li></ul>

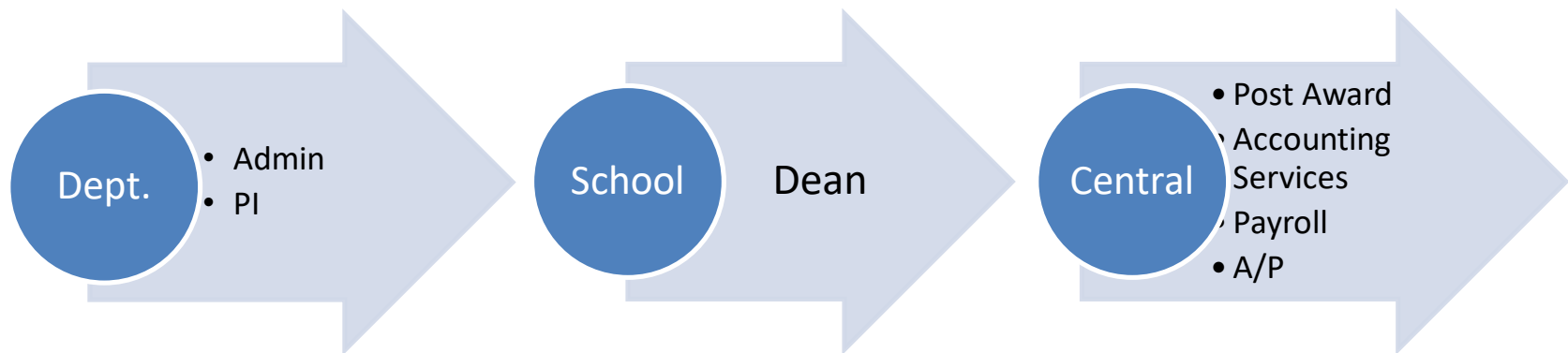
# Annual Single Audit – PI Interviews

- 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



# Internal Controls – Checks and Balances

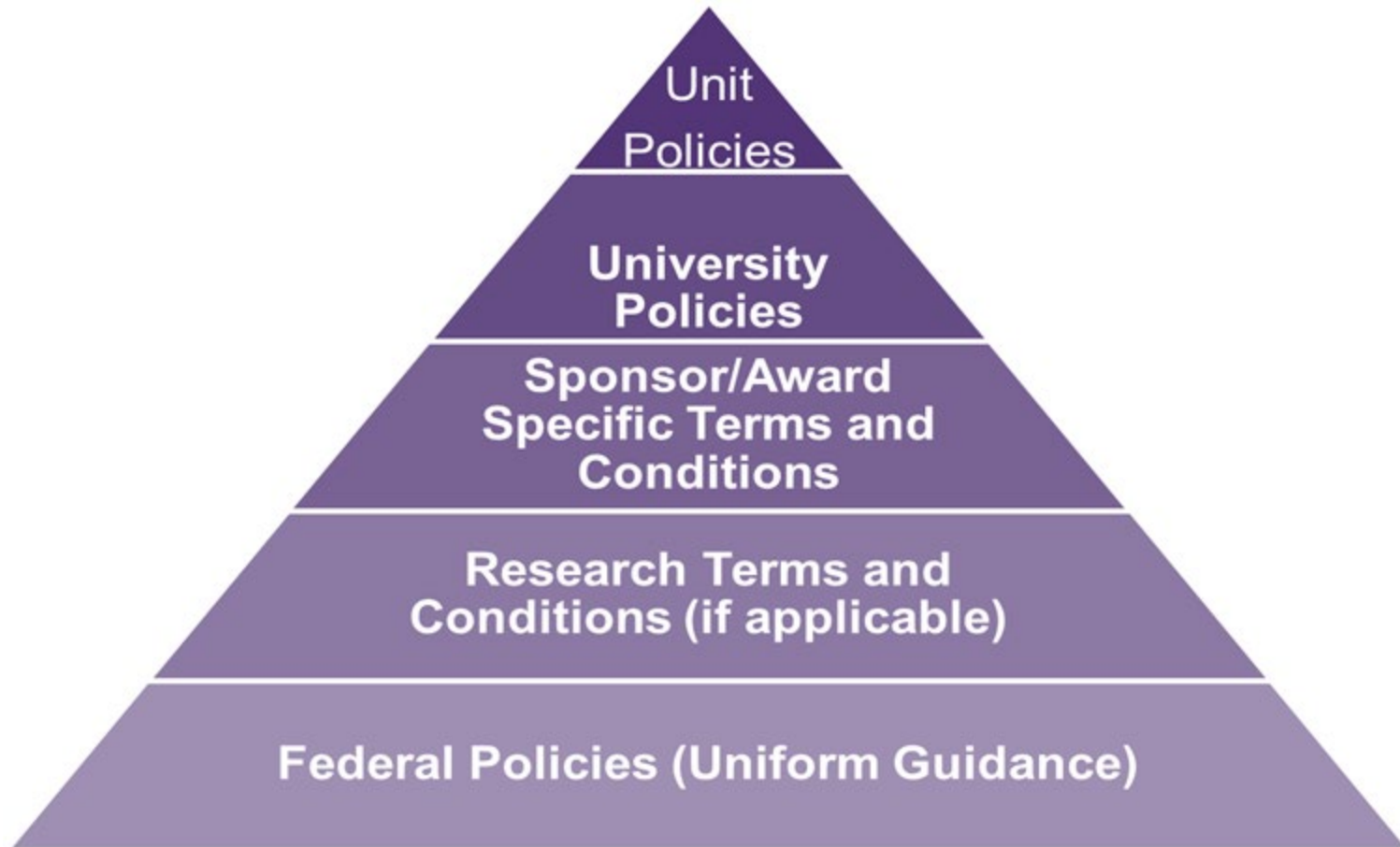
- *Multi-level reviewers/approvers - each role has responsibilities for Checks and Balances*
- *Know what you are submitting/approving/certifying*
  - *It can be charged there, but should it be?*



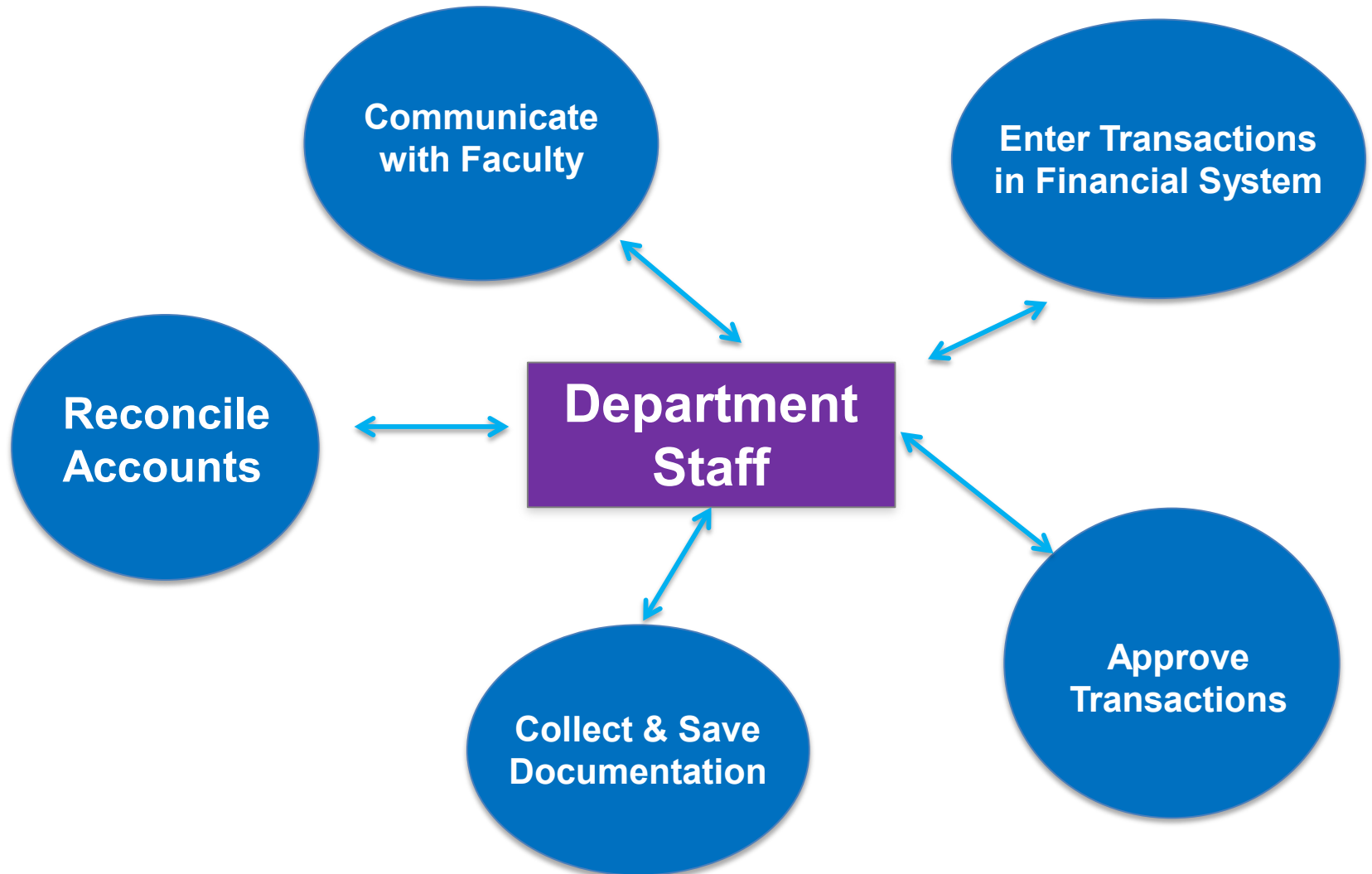
# Audit Focus – Internal Controls

- Key indicators of strong Internal Controls:
  - ▶ Sense of the entity conducting operations ethically
  - ▶ Positive responsiveness to questioned costs
  - ▶ Staff knowledge of compliance requirements
  - ▶ Training programs

# Order of Precedence



# The Crucial Role of the Department Administrator



# 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 that account code is used correctly for equipment.

## Examples



- Equipment purchased or received after award end 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 a centrifuge in the last month of a project, cost: \$12,000.**

**Justification:** The purpose of this NIH grant is to study human vascular disease. The 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 centrifuge and we want to charge it to the grant.

# Purchase Example 2

- **Request to purchase centrifuge tubes in the last two months of a project, cost: \$5,000**

**Justification:** We need these specialized centrifuge tubes to complete aim #3 of the project. 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): why it happened and how it can be prevented in the future

## Red Flags

- ❏ Transfers not following own university's policy
- ❏ Timing - Especially near end or last month of the project period
- ❏ Transfers without full explanation or cookie cutter explanations
- ❏ High volume of transfers for the same project or department

# Cost Transfers 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.)
  - IRS
  - 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

1. Why was this expense originally charged to the chart string from which it is now being transferred? Or, why was this expense incurred (if not yet posted)?

Lab services were charged to this project but shouldn't have been. This journal corrects that mistake.

2. Why should this charge be transferred/posted to the proposed receiving chart string? (For transfers, a correlation must be drawn between the initial charge and the chart string to which it is being transferred.)

Receiving chartstring is the correct chartstring

3. Why is this cost transfer/posting being requested more than 90 calendar days after the date of transaction on a budget statement/original occurrence?

We just realized the mistake.

4. What action is needed to eliminate the future need for cost transfers/postings of this type? Is this action being taken?

We're hopeful it won't happen again.

# Late Cost Transfer - Discussion

1. Why was this expense originally charged to the chart string from which it is now being transferred? Or, why was this expense incurred (if not yet posted)?

Animal phenotyping core services for Jon Snow were charged to project 61234567 back in October, however, Jon works on project 61234576 and the service charge benefited 61234576 exclusively.

2. Why should this charge be transferred/posted to the proposed receiving chart string? (For transfers, a correlation must be drawn between the initial charge and the chart string to which it is being transferred.)

Jon Snow contributes effort to 61234576 and his lab charges exclusively benefited this project.

3. Why is this cost transfer/posting being requested more than 90 calendar days after the date of transaction on a budget statement/original occurrence?

Quarterly reconciliation uncovered the error, at which point the 90-day threshold had passed.

4. What action is needed to eliminate the future need for cost transfers/postings of this type? Is this action being taken?

Reconciliation is now being done monthly rather than quarterly to eliminate the future need for this type of transfer.

# Other Hot Topics

- Travel
- Tuition
- Purchasing Cards
- Bypassing official purchasing system for purchases
- Dividing expenses between multiple grants
- **Segregation of Duties (Checks and Balances)**
- Effort Reporting/compensation for personal services

## Segregation of Duties (Checks and Balances)

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.**

Source: <https://www.justice.gov/usao-edmo/pr/former-washington-university-official-indicted-embezzling-medical-school>



# Hot Topic Discussion- Documentation

- Documentation is a thread through all audit topics

# Questions?



# Appendix - Internal Controls per Uniform Guidance

- Definition (200.61)
  - Processes designed to provide reasonable assurance of achieving the following:
    - ▶ Effective & efficient operations
    - ▶ Reliable financial reporting for internal and external use
    - ▶ Compliance with laws & regulations
- Requirements (200.303)
  - **Must** maintain effective internal control over the federal award that provides reasonable assurance...
  - **Should** be in compliance with COSO and Standards for Internal Control in the Federal Government (the “Green Book”).
  - **Must** comply, evaluate and monitor compliance with 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