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How to Prepare for and Survive an Audit

Learning Objectives

What is an audit

Engaging with auditors

How to be proactive regarding audits
## Getting to Know Virginia Tech

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year ending 6/30/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Proposals Submitted</td>
<td>3,076</td>
</tr>
<tr>
<td>Number of Awards Received</td>
<td>2,364</td>
</tr>
<tr>
<td>Amount of New Awards ($)</td>
<td>$323,701,609</td>
</tr>
<tr>
<td>Description</td>
<td>Fiscal Year ending 6/30/19</td>
</tr>
<tr>
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<tr>
<td>Number of Proposals Submitted</td>
<td>3,805</td>
</tr>
<tr>
<td>Number of Awards Received</td>
<td>3,442</td>
</tr>
<tr>
<td>Amount of New Awards ($)</td>
<td>$1,050,095,192</td>
</tr>
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</table>
Audit, What Does That Mean

- Verification of the financial statement and/or internal controls of an organization by an objective third party to express an opinion that:
  - The financial information is presented fairly and is materially correct
  - The organization internal controls are working properly and as designed
Is this an Audit?

- Monitoring Visit
- Documents requested to support invoice
- Investigations
- Quarterly reports
- Desk Reviews
- *An audit by another name is still... an audit*
Audit Requests Received From...

- Federal Cognizant Agency (ONR)
- Federal Sponsor: Specific award
- Federal Sponsor: Non-specific award
- State
- Industry
- Foundation
- Other University
- Audit Agency (annual audit)
- Internal Audit
Where is the Audit Conducted?

- Two Main Types
  - Onsite
    - Auditor requests to visit campus
  - Desk Review
    - Auditor requests documents via email
    - May request documents be uploaded
Audit Type Examples

- Financial
- Programmatic
- Process Specific (i.e. Effort, COI)
- Uniform Guidance Subpart F/Single Audit
Subpart F – Audit Requirements

- 2 CFR 200.500
  - Standards for obtaining consistency and uniformity
  - Provide policies and procedures for Federal awarding agencies and pass-through entities when using the results of these audits
  - Auditees responsibilities
  - Federal agencies responsibilities
  - Directions to auditors
Audits

Identify major programs based on expenditures in fiscal year (SEFA)

Review previous audit findings

Review new programs or those with regulatory changes

Expenditures (budget vs actual)

Expenditures (Cost Acctg Stds)

Expenditures (per Agreement)

Financial Reporting

Cash Management

Cost share (committed vs. actual)

Effort Reporting

Review personnel or system changes

Subawards

Institution Policies & Procedures
What is the Process

Planning
- Initial contact “Engagement Letter”
- Establish Team
- Sample Selection

Fieldwork
- Interviews
- Process mapping
- Testing of Internal Controls or Policies
- Transaction testing

Reporting
- Initial findings are shared with division head in draft report
- Auditee has responsibility to respond to the findings
- Once the report has been approved by appropriate level of management report is issued
- Appropriate follow up on progress is scheduled
Audit Support

Central Office
- Determines support needed
- Gathers available support
- Provides Effort, fringe, and indirect cost support

Department
- Gathers support requested
- Sends support to the RO
- Alerts the RO to any potential issues

Central Office
- Reviews all support documents
- Discuss/seek clarity on items with department
- Submits documents to the auditor
General Tips to Prepare

- What agency is involved
- Review that agency’s audit plan and any recently published audit reports
- Identify who will be conducting the review (many agencies are now outsourcing their audits)
- Establish team – one individual is the liaison
General Tips to Prepare

• Understand the focus area of the audit
• Carefully read the audit notification and any related requests for information
• Prepare as much documentation as possible in advance, and try to anticipate what materials the auditors may need
• Be sure to discuss any questions regarding requested information when needed
General Tips to Prepare, Cont.

- Discuss schedule of audit
  - Conduct when organization is able to focus
  - If proposed schedule is challenging ask to schedule at later time, provide reason
- Auditors are people, too!
Traditional Audit Findings

- Consistent treatment of direct and indirect costs
- Cost allowability
- Cost transfers
- Payroll distribution/effort reporting
- Tracking and reporting of cost share
Emerging Audit Findings

- Adequacy of internal controls
- Direct charging of administrative costs
- Subrecipient monitoring
- Timely submission of programmatic and financial reporting
## Recent Audit Findings

<table>
<thead>
<tr>
<th>Institution</th>
<th>Agency</th>
<th>Period</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon State University</td>
<td>NSF OIG</td>
<td>March 2015 through February 2018</td>
<td>$369,532 of $10.8m tested</td>
</tr>
<tr>
<td>Ohio State University</td>
<td>NSF OIG</td>
<td>February 2015 through January 2018</td>
<td>$502,587 of $5.6m tested</td>
</tr>
<tr>
<td>University of Texas - Austin</td>
<td>NSF OIG</td>
<td>December 2013 through November 2016</td>
<td>$283,613 of $12.6m tested</td>
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</table>
Follow up from Auditors

- Notification of outcome varies
- Requests for clarity on items submitted
- Requests for additional documentation
  - On items already submitted
  - New items, such as additional period to be reviewed
- Disallowance of costs can occur
Auditor Actions Can Include…

- Disallowance of costs
- Published findings
- Fines
- Affect on current and potential proposals and awards
During the Process

• The burden of proof regarding allowability is on the institution NOT the auditor
• Individuals in departments other than central office may be interviewed and/or expected to provide information
  • Faculty
  • Department Administrators
  • Students
When Does an Audit Begin
Roles and Responsibilities

Principal Investigator
- Read the award
- Know the terms
- Present ideas of WHAT is desired outcome
- Justify allowability
- Provide justification

Administrator
- Read the award
- Know the terms
- Translate rules to outcomes
- Question expenses
- Maintain documentation

Central Office
- Read the award
- Know the terms
- Guide and facilitate decisions
- Seek sponsor approvals as needed
- Help determine relevant documentation
Internal Controls

- Processes implemented designed to provide reasonable assurance
  - Effectiveness & efficiency of operations
  - Reliability of reporting for internal & external use
  - Compliance with applicable laws & regulations
Compliance Internal Controls

- Transactions properly recorded & accounted for
  - Prepare reliable financial statements & reports
  - Maintain accountability over assets
  - Demonstrate compliance with federal regulations
- Transactions are executed in compliance with
  - Federal statutes, regulations, terms & conditions
- Funds, property, & other assets are safeguarded against loss from unauthorized use or disposition
Vulnerable Areas

- Credit Cards
- Cost Transfers
- Inconsistent Cost Treatment
- Oddities
Red Flags

- Insufficient documentation
- Significant number of late transfers (greater than 90 days)
- Transfers from an account in overrun status to an account with large balance
- Significant number of transfers from departmental account to sponsored accounts
Audit Trails.....

“If it’s not documented, it didn’t happen....”
Summary

Audits

- Are necessary
- Should not be feared
- Validate good business processes

Documentation

- Validate expenses
- Can be obtained in many ways
- Ensures good monitoring /business processes
What Makes a Successful Audit?

Knowledge of policies and regulations

Appropriate Approvals

Organized Files and Good Support Documentation
Thank you!

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