

SRA International Delaware Valley Chapter

Preparing for Institutional Audits



Types of Audits

Annual Audits

- *Uniform Guidance/Single Audit
- *Financial Statements

Financial Audits

- *Agency/Program Specific
- *Investigative/Criminal (OIG)
- *Award Specific

Non-Financial

- *Procurement Systems
- *Pre-Award
- *Technical Review

'Others'

- *Internal Audits
- *F&A Cost Proposal Audit
- *Site Visits



Types of Audits

Pre-Award Audits

- Performed by agency to verify
 - Adequacy of University systems and controls
 - Accuracy of costs on application (Direct/Indirect)
- Usually performed by or at the request of the sponsor
- Federal Awards (Cognizant Agency)

Types of Audits

Agency or Programmatic Audits

- Performed on Active or Terminated awards
- Federal Awards normally a result of a request by the Sponsor
- Foundations and/or Associations

Types of Audits

Investigative/Criminal Audits

- Usually based on allegations of fraud
 - Misuse of funds
 - Audit of how we comply with regulations
 - If Federal, OIG audit
 - Subpoena powers
- Audit results can be expensive



Types of Audits

Internal Audits

- University audits are performed to:
 - Evaluate system controls
 - Assess compliance with University and Sponsor policies and applicable Federal regulations
 - Aide departments with internal controls



Types of Audits

F&A Cost Proposals Audits

- Audit occurs cyclically
 - During the F&A negotiation process
- Interviews of PI and BA to determine basis for assigning space to research
 - Space drives the rate
- F&A recovery rates are affected by expenditures



Types of Audits

Uniform Guidance/Single Audits

- Federal Regulations – Uniform Guidance
 - Required annual audit of federal grants & contracts
 - Performed by independent auditors
 - Penn: PricewaterhouseCoopers (PwC)
 - Department/Central (ORS)
 - Audit of systems and transactions
 - Cost Transfers, Effort Reports, Subcontracts, Service Centers, Technical & Financial Reports

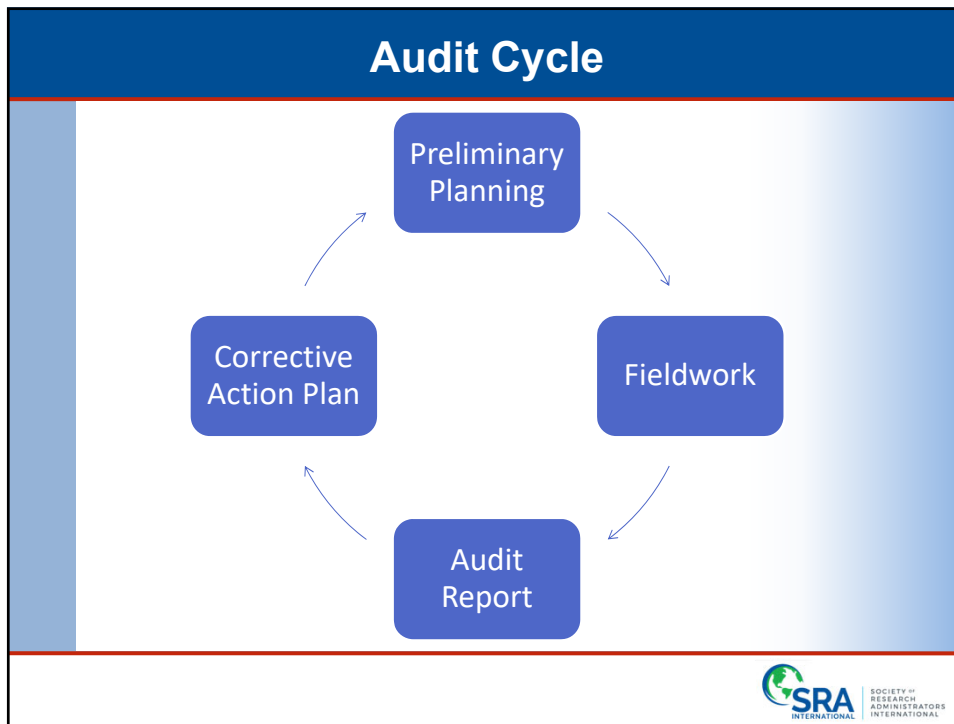



Audit Principles

- Audited on compliance with all applicable regulations & policies
 - Federal
 - State
 - Sponsor
 - Specific award terms
 - University

Audit Principles – cont'd

- Good award management is the key to good (uneventful) audits
- Document, Document, DOCUMENT
- Audits are everyone's responsibility
 - PI, Departmental Admin, School, Pre and Post-award
 - Don't go in alone
- Audits may provide feedback for process improvement
- Central Offices, Principle Investigator & Department Admin have a responsibility to educate the auditor about the purposes of the project



- ## Audit Cycle: Preliminary Planning
- Notification / Engagement letter
 - Defined Scope
 - Entrance conference
 - Data request
 - Documentation requests
 - Policy & procedure requests
 - Follow-up (questions/clarifications)
-  SOCIETY OF RESEARCH ADMINISTRATORS INTERNATIONAL

Preliminary Planning – cont'd

- Who should be involved?
 - Once you understand the nature and focus of the audit, consider what office(s) should lead the audit and/or should be involved in supporting
 - Internal Audit?
 - Sponsored Projects?
 - Controllers Office/Finance?
 - Procurement?
 - General Counsel?
 - PI / Technical staff?



Preliminary Planning – cont'd

- Internal meeting to prepare for audit
 - Anticipate questions
 - Develop procedures for working with auditors
 - Prepare and support PI
 - Work to prevent adversarial relationship
- Tracking Requests / including all follow-ups
 - Setting expectations for turnaround time
 - File management
 - Use of cloud storage, file sharing capabilities
- Don't panic!



Fieldwork

- When
 - Identify when auditor's fieldwork will begin and how long it will last
- Where
 - Some auditors conduct their field work completely via the internet and phone conferences
 - That generally occurs when the auditors are very familiar with the nonprofit and its operations.
 - Since one of the purposes of field work is the "testing" aspect, it makes sense for the majority of audits to be conducted on site where the nonprofit's financial operations are centralized.



Fieldwork – cont'd

- Things to consider:
 - Sponsored Projects Office should control the schedule and interviews
 - Always be truthful and answer the question but do NOT volunteer information
 - Be sure to keep Auditors within Scope
 - Don't make assumptions about an auditor's level of knowledge
- Audit Climate
 - Trend is data analytics (created in DOD, expanded by NSF)
 - Highly aggressive audits
 - Dramatic findings and headlines
 - Lengthy reviews by audit resolution branch and ultimately small final findings



Audit Report

- Exit Conference / Draft Report
 - Discussion document with preliminary findings
 - University response and questions
 - Often the best option is to try and negotiate out a finding before it gets into the Audit Report
 - Was there a misunderstanding or miscommunication?
 - Terminology or interpretation issue
- Final Report w/Findings
 - University formal response
 - Professional vs. personal
 - Brief and to the point or detailed explanations
 - Focus on the issues and cause of issues
 - Corrective action plan

Corrective Action Plan

- Be realistic in terms of what you are going to do
 - Don't promise to over-comply
 - Compliance, not punishment
- Be sure the Corrective Action Plan is in place and is working
 - Be realistic in terms of timeline to develop, train, and implement

Audit Red Flags

- Salary Charges on Awards
 - Effort Reports- missing or not certified
 - Change in effort towards end of project
- Cost Transfers
 - Lack of documentation
 - Timing
- Expenditure Rates
- Still Breathing or Increase towards end of project
- Cost Share
 - Unfulfilled cost share commitments
- Documentation
 - Prior Approvals / Allocations / Delegation
 - Direct Benefit to the project



Actual Audit Findings

- 7/11/16 University of Washington: Unreasonable Equipment, Materials and Supplies Charged to 19 NSF Awards \$123K (\$12K purchased near the award expiration that did not appear to benefit the award or that did not appear necessary considering the limited time remaining) .
- 9/28/15 Florida State University: Expenditures Near Award Expiration (Travel was paid prior to award expiration, travel occurred after the award expiration).
- 8/17/15 Indiana University: Unreasonable or Unallocable Transactions (\$21.7K for purchase of lab supplies on the day of award expiration)
- 9/24/14 University of Illinois Champaign: Cost Transfers made 21 days after the award ended.
- 6/27/14 University of North Carolina Chapel Hill; Cost not adequately documented (\$284K cost transfers without documenting the basis for the amount, the reason the transfer was necessary or why transfers occurred several months after the University initially recorded the charges)
- 6/13/14 University of California, Santa Barbara: \$2.8 million in unfulfilled cost share requirements, and \$500K of inappropriate Cost Transfers (to spend out grant funds)



Questions??

