

# Reaching New Heights

in Research Administration

## Troublesome Audits and How to Avoid Them

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DUKE UNIVERSITY  
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## The Audit Environment

### Background:

Before implementing the Single Audit, numerous audits were carried out on individual federally funded programs to ensure these funds were spent properly.

Federal agencies had the task of auditing all programs – tedious and time consuming.

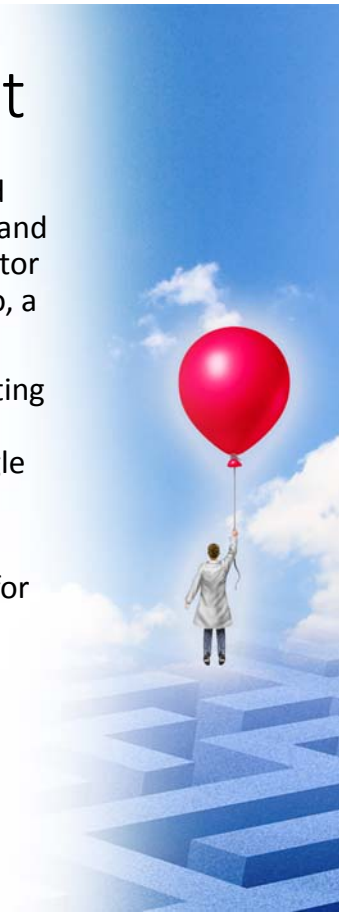
Single Audit Act of 1984 standardized audit requirements for States, local governments, and Indian tribal governments that receive and use federal financial assistance programs, and eventually issued A-133 included higher education and non-profits.

Although intended to reduce instances of individual agencies, conducting multiple audits, this has not proven to be the case...GAO reports indicate lack of confidence in effectiveness of the Single Audit.



# The Compliance Supplement

- The Single Audit [Compliance Supplement](#) is a large and extensive guide created by the OMB for Single Audits, and is considered the most important tool of both the auditor and the recipient when performing, or being subject to, a Single Audit.
- It was created following amendments & identifies existing important compliance requirements that the Federal Government expects to be considered as part of a Single Audit.
- For Single Audits, the Supplement replaces any agency audit guides and other audit requirement documents for individual Federal programs



## Key Points of the 2016 Compliance Supplement

- Applicability: Subject to A-21 or to the Uniform Guidance
- Internal Controls: Provide reasonable assurance for compliance with federal program requirements
- Subrecipient Monitoring
- <http://srainternational.org/publications/catalyst/2016-09/changes-and-effects-internal-controls-2016-compliance-supplement>



# OIG – Offices of Inspector General

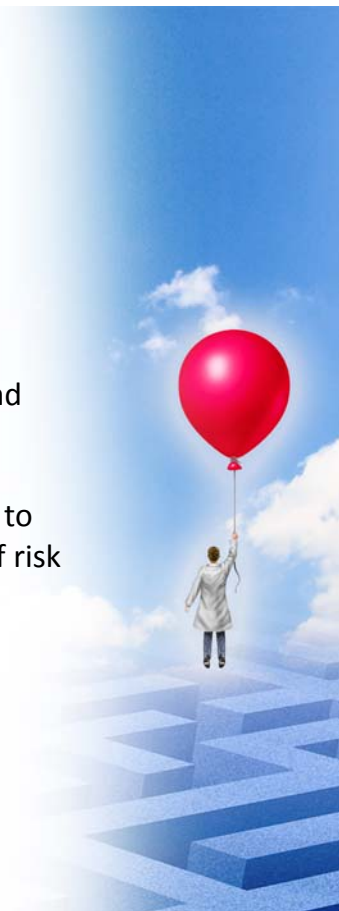
- Established by the [Inspector General Act of 1978](#), the Office of Inspector General (OIG) examines all actions of a government agency or military organization.
- Conducts audits and investigations, either independently or in response to reports of wrongdoing.
- Misuse of agency funds or equipment are often revealed by OIG audits.



## Work Plans

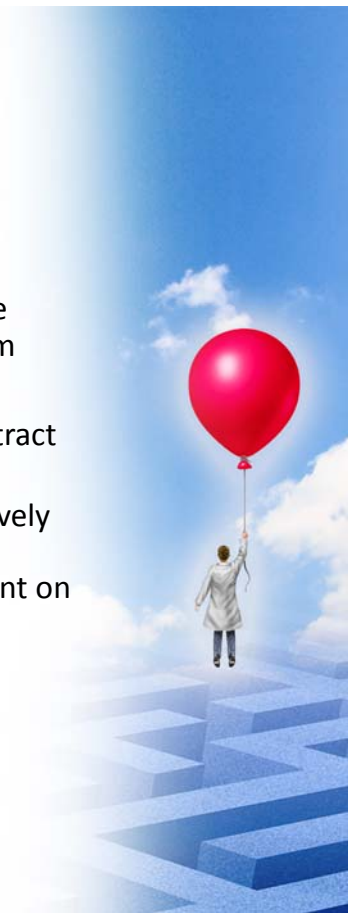


- Updated annually
- Identifies both internal and external types of reviews
- Prompts audits according to agency's determination of risk



# NIH Work Plan for 2017

- NIH—colleges' and universities' compliance with cost principles
  - We will assess colleges' and universities' compliance with selected cost principles as stated in the Uniform Guidance
- NIH—controls over subcontracting of NIH grant and contract work
  - Determine whether colleges and universities effectively monitor the services subcontracted to other organizations and ensure that Federal funds are spent on allowable goods and services



# NSF OIG Work Plan



**Management of NSF Business Operations**

NSF is accountable for the quality, integrity, and performance of its research programs and stewardship of its annual appropriations. This accountability is mandated by NSF's chartering legislation and numerous other laws including the Budget and Accounting Procedures Act, the Federal Managers Financial Integrity Act, the Chief Financial Officers Act, the Federal Financial Management Improvement Act, and OIGBI guidance. Conducting audits to evaluate whether NSF is fulfilling its responsibility for financial and/or program accountability is central to the OIG mission of preventing and detecting fraud, waste, and abuse and promoting efficiency, effectiveness, and economy.

**Mandatory Audits and Reviews in 2017**

- Audit of NSF's FY 2016 and 2017 Financial Statements
- FY 2016 and 2017 Evaluations of NSF's Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)
- NSF's Compliance with the Impresario Payments Elimination and Recovery Act (IPERA) of 2016, as amended
- NSF's Compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act)

**Planned for 2017**

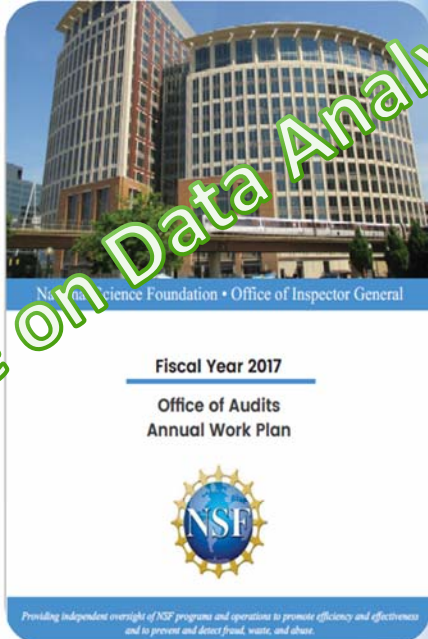
- Managing Conflicts of Interests among Non-Permanent NSF Staff
- Subrecipient Monitoring
- Conference Spending

**Grant Administration**

Making grants in support of promising scientific research. In FY 2015, NSF evaluated over 49,000 proposals for funding through a competitive review process, and funded approximately 22,000 research projects. As of June 30, 2016, NSF had a portfolio of over 2,300 awards totaling approximately \$29.2 billion to over 2,300 awardees. NSF's portfolio of research grants carries a high risk that its portfolio represents. It is vital that NSF ensure that grantees spend their funds appropriately.

**Planned for 2017**


- Quality of Single Audits



National Science Foundation • Office of Inspector General

**Fiscal Year 2017**

**Office of Audits**  
**Annual Work Plan**



*Providing independent oversight of NSF programs and operations to promote efficiency and effectiveness and to prevent and detect fraud, waste, and abuse.*

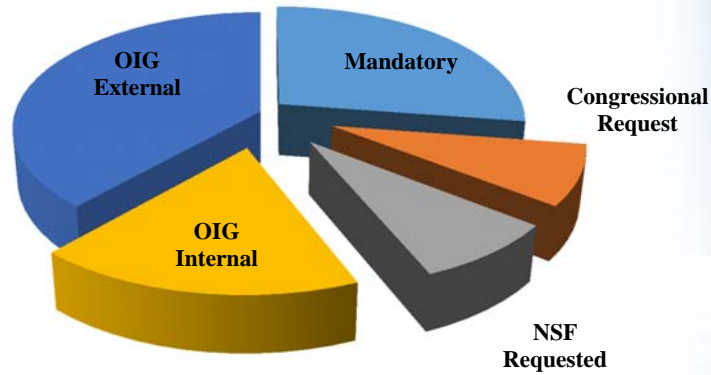
Total Reliance on Data Analytics





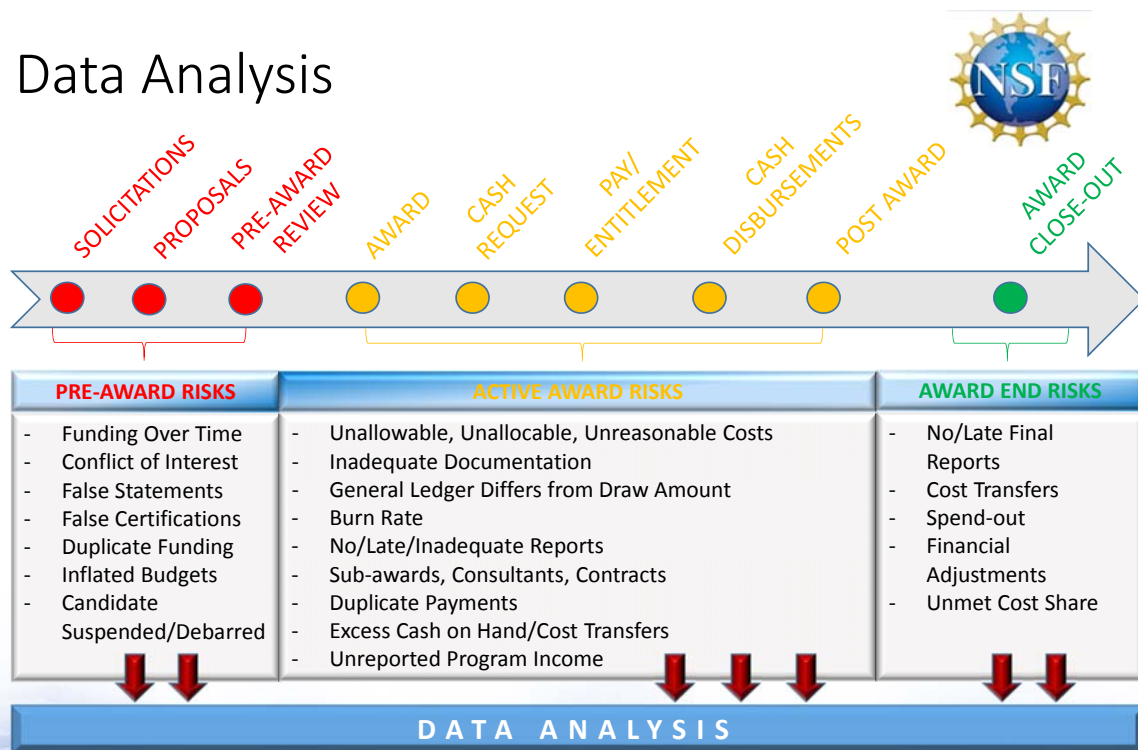
# National Science Foundation

## Distribution of Audit Work



Dr. Brett Baker, AIGA, NSF OIG

## Data Analysis



# What Can We Expect?

Impact of the Uniform Guidance 

We got what we wished for:

- “Faculty Friendly” reduction of burden
- Less prescriptive effort reporting
- Relaxation on certain costs
  - Computers
  - Research Personnel
  - Clerical and Administrative – maybe
  - Travel - maybe



# What Can We Expect?

We got what we wished for (maybe):



- Internal control reviews
- More responsibility on institution to determine appropriate oversight
- Subrecipient Monitoring
- Procurement – maybe
- Clerical and Administrative – maybe
- Travel - maybe



Let's look at some troublesome audits – what can we learn?



## Howard University; 2014

- Findings deal primarily with policy and procedure deficiencies
  - Accurate award classification on federal schedule
  - Effort certification compliance
  - Unallowable costs - purchases of goods for personal consumption
  - Meeting cost share requirements
  - Adherence to Fly America requirements
  - Tagging and records for federally purchased equipment



## Univ. of Pennsylvania; 2015

- Primarily focused on cost transfers and allowable costs
- Additional issues with proper documentation of cost transfers

## Rutgers; 2015

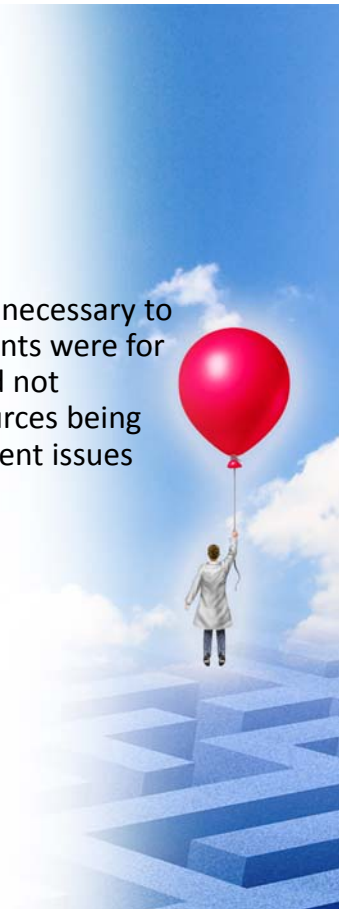
- Fringe Benefits: Fringe benefits reported on interim reports were not calculated at the correct rate and therefore reported incorrectly, resulting in an over-charge of fringe benefits.



## UNC; 2015

- Lack of salary and wage certifications

The University did not complete the effort certifications necessary to ensure that all salaries and wages charged to federal grants were for services rendered under those grants. The University did not complete their upgrade of the ECRT system due to resources being reallocated to assist in the implementation and subsequent issues with the University's new accounting system.





# UTSW Medical Center;2015

- Service Centers
- Failed to ensure that costs of services provided by specialized service facilities were designed to recover only the aggregate costs of the services, and rates were not adjusted to account for excessive fund balances.



# UTSW Medical Center; 2015

- Inaccurate Financial Records
- Did not always ensure that its financial reports were accurate and supported by applicable accounting records; 17% of financial reports tested did not accurately reflect indirect costs, cost rates, base, or the federal share of expenditures.



## UC San Diego; 2014

- Clerical and Administrative
- Did not always provide adequate oversight of nonpayroll administrative and clerical costs charged directly by departments to HHS awards.
- The University claimed at least \$202,401 in unallowable costs, consisting of \$148,803 in unallowable nonpayroll costs and \$53,598 in unallowable F&A costs related to the unallowable direct costs



## NSF Effort Audits

- Usually contracted to smaller audit firms
- Focused on allowable salary charges – excess of two months
- NSF published FAQs stating that the two months' rule could be bypassed; auditors continued to report findings
- Multiple years/audits focused on this issue
- Resulted in required report from OIG's on cost of audit (both federal agency and auditee) versus recovery



# U of Michigan NSF Audit

- The auditors questioned \$2,710,238 of costs claimed on NSF awards. Specifically, the auditors noted: \$2,242,477 in salary costs that exceeded NSF's allowable limits; \$360,908 in unsupported ACM\$ requests; \$57,355 in equipment purchases that did not benefit NSF awards; \$20,656 in unallowable travel expenses;
- \$2,635 in unsupported travel expenses; \$8,905 in unallowable upgraded travel and entertainment expenses; \$7,203 of indirect costs improperly claimed on participant support costs; \$6,603 unallowable additional compensation; and \$3,496 in unallowable visa expenses.



# When Auditors are Wrong

- There were numerous NSF Effort audits, which were later disallowed by the NSF OIG
- NSF is still utilizing data analytics with emphasis on late spending, travel from uncompensated personnel, equipment and timing of equipment purchases, etc.
- When you are selected, regardless of whether there are sustained costs or not, an audit is excruciating, time consuming, resource intensive, distracting, etc.
- And, while looking for the now disallowed salary issues, they are likely to stumble across other potentially compliance concerns.



# Rough Times for Columbia

- Columbia paid more than \$9 million to settle a federal false claims suit
  - Columbia admitted to inaccurate effort reporting and mischarging federal grants
- Columbia Paid \$9.5 Million settlement for improperly seeking excessive cost recovery
  - Columbia charged the on-campus rate instead of the appropriate off-campus rate on hundreds of NIH research grants over a 12 year period
- NSF questions \$1.2 Million of costs;
  - Mostly senior personnel and unreasonable equipment charges



# DOJ - Columbia

- Columbia admitted to inaccurate effort reporting and mischarging federal grants
- Over 75 awards were involved, starting with an initial grant in 2004 for \$125M, followed by additional awards granted through 2012
- The settlement and the civil lawsuit were announced on the same day (10/28/2014) in New York by the Manhattan U.S. Attorney
- The lawsuit resulted from a whistleblower complaint filed in 2011 by former director of finance (tenure as director; 2008-2011)



# DOJ - University of Florida

## University of Florida Agrees to Pay \$19.875M to Settle False Claims Act Allegations

- DOJ alleges that UF improperly charged salary and administrative costs on hundreds of federal grants sponsored by DHHS
- From the DOJ announcement - "Today's settlement demonstrates that the Department of Justice will pursue grantees that knowingly divert those funds from the projects for which they were provided." "Grantees must have internal controls promoting accountability and transparency." "Taxpayers should expect nothing less."



# DOJ - University of Florida

- Detailed allegations
  - UF overcharged hundreds of grants for the salary costs of its employees, where it did not have documentation to support the level of effort claimed on the grants for those employees.
  - UF charged some of these grants for administrative costs for equipment and supplies when those items should not have been directly charged to the grants under federal regulations.
  - UF allegedly inflated costs charged to HHS grants awarded at its Jacksonville campus for services performed by an affiliated entity, Jacksonville Healthcare Inc.



# DOJ - University of Florida

- “This settlement illustrates the government’s emphasis on combating health care fraud and marks another achievement for the Health Care Fraud Prevention and Enforcement Action Team (HEAT) initiative, which was announced in May 2009 by the Attorney General and the Secretary of Health and Human Services.”
- The claims resolved by the settlement are allegations only; there has been no determination of liability



## Anatomy of an Audit – HHS and State Auditor General

- Clerical and Administrative Salaries
- Salaries inappropriately charged
  - Graduate Students
  - Terminated Employees
  - Rate of Pay
- F&A – Subagreement vs Vendor
- Insufficient Documentation
- Failure to meet test of “Reasonableness”
- Costs not allocable to project, etc.....



# Does Duke Have Policies and Procedures for these Issues?

- Reporting instances on non-compliance?
- Documentation of cost transfers and policies for untimely cost transfers?
- Accurate reporting of effort?
  - Only booked when actually expended
  - Calculated correctly
  - Managed when there is a reduction of >25%
  - Documentation of NSF variations
  - Correct application of IBS
- Are Service Center rates accurately calculated, updated and applied?
- Are unallowable costs correctly identified and not initially charged?
- Is allocability of certain costs documented by the department?
- Allowable VISA costs
- Internal Controls – The BIG issue



## Resources

- NSF OIG Plan:  
<https://www.nsf.gov/oig/pdf/2017%20Annual%20Audit%20Plan.pdf>
- How NSF Uses Data Analytics:  
<https://www.nsf.gov/oig/pdf/2013dawslides.pdf>
- What to Expect When You're Expecting...Your Single Audit  
<http://srainternational.org/publications/catalyst/201606/what-expect-while-you%E2%80%99re-expecting%E2%80%A6your-single-audit>



# Resources

- Internal Controls and the Single Audit  
<http://srainternational.org/publications/catalyst/201609/changes-and-effects-internal-controls-2016-compliance-supplement>
- HHS OIG Work Plan <https://oig.hhs.gov/reports-and-publications/workplan/index.asp>
- NIH Audits <https://oig.hhs.gov/reports-and-publications/oas/nih.asp>

