



# TURAC 2024<sup>+</sup>

Connection • Collaboration • Cohesion

**Fiscal Compliance and Minimizing  
Audit Risk**

04/17/2024

## **Land Acknowledgement Statement**

*“Arizona State University, Northern Arizona University, and the University of Arizona collectively acknowledge that the campuses are situated on the ancestral lands of twenty-two federally recognized tribes located across Arizona. These universities collectively honor the past, present, and future generations of Native Americans, who have lived here for millennia and will forever call this place home. Committed to diversity, the institutions integrate Indigenous knowledge into their practices and strive to cultivate sustainable relationships with Native Nations through education, partnerships, and community service.”*



# PRESENTERS



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# What is an Audit?

## [NIH Grants Statement Policy Statement](#)

An audit is a systematic review or appraisal made to determine whether internal accounting and other control systems provide reasonable assurance of the following:

- Financial operations are properly conducted.
- Financial reports are timely, fair, and accurately.
- The entity has complied with applicable laws, regulations, and other grant terms.
- Resources are managed and used economically and efficiently.
- Desired results and objectives are being achieved effectively.

# Types of Audits

- **Single Audit:** The Single Audit is an entity-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal financial assistance in one year. It is intended to provide assurance to the Federal Government that a non-federal entity has adequate internal controls in place and is generally in compliance with program requirements.
- **Grant Financial Audit:** Examination of financial statements, policies and processes pertaining to the execution of an externally funded project.

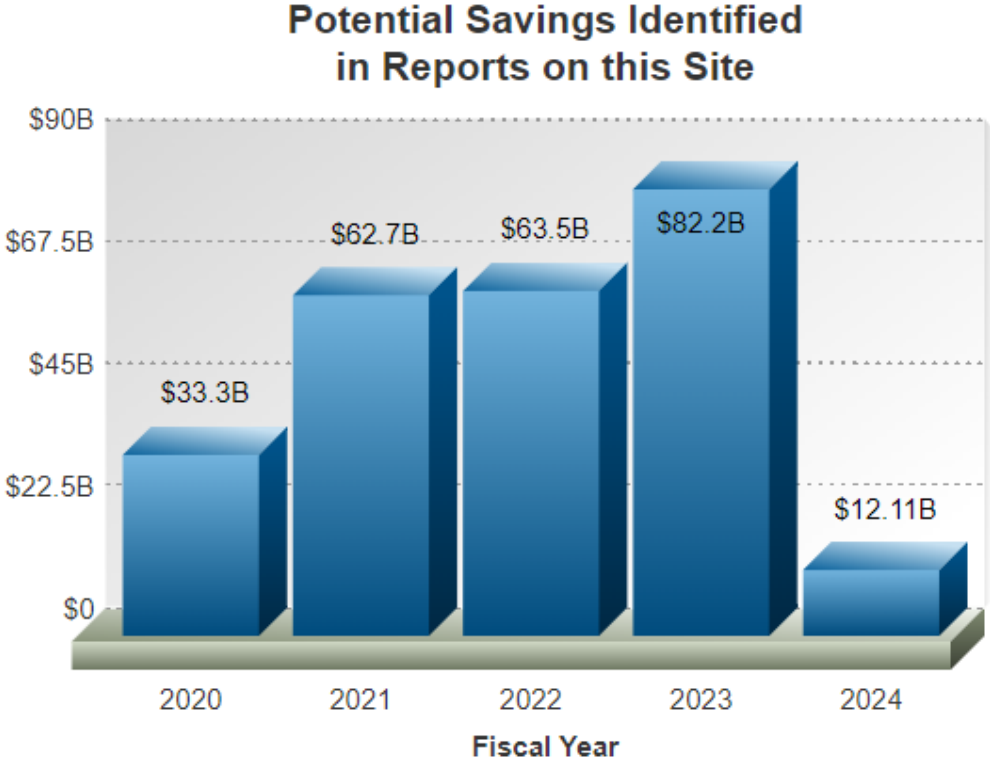
# Federal Audit Landscape

## Council of the Inspectors General on Integrity and Efficiency (CIGIE)

- Under the Inspector General Act of 1978, as amended, the role of federal IGs is to **prevent and detect waste, fraud, and abuse** relating to their agency's programs and operations, and to promote economy, efficiency, and effectiveness in the agency's operations and programs.
- [Oversight.gov](https://www.oversight.gov) - Oversight.gov aggregates public reports from Federal OIGs that are members of CIGIE.

# Federal Audit Landscape

[Oversight.gov](https://www.oversight.gov)



# Federal Audit Landscape

[Oversight.gov](https://www.oversight.gov)

Reports Uploaded to Oversight.gov  
(28754 total reports)



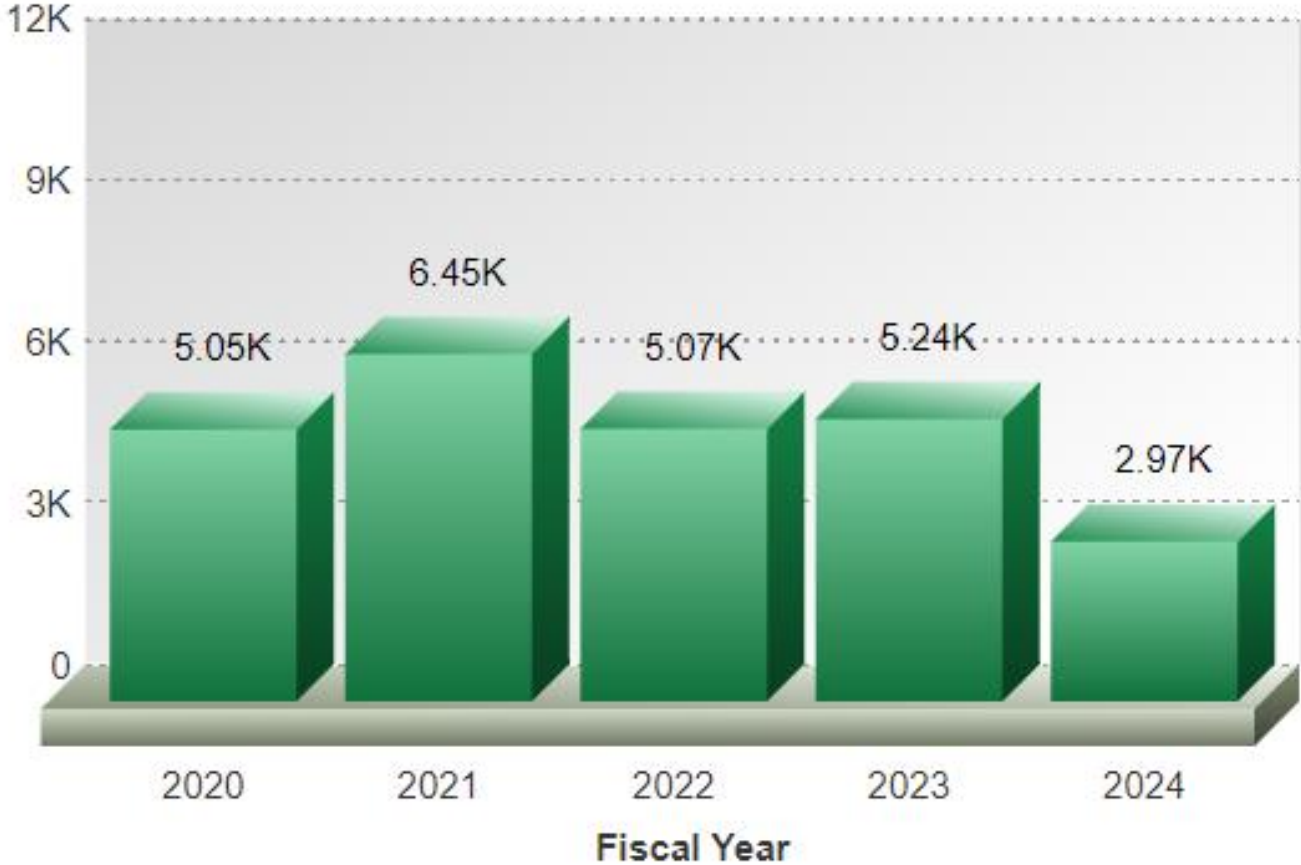
- Investigation
- Inspection / Evaluation
- Top Management Challenges
- CIGIE Annual Report
- Peer Review of OIG
- Audit
- Semiannual Report
- Other
- Review
- Disaster Recovery Report



# Federal Audit Landscape

[Oversight.gov](https://www.oversight.gov)

Number of IG Recommendations in Reports on this Site



# Federal Audit Landscape

- [National Science Foundation OIG Workplan](#)
  - Grantee Subrecipient Monitoring & Spending
  - Grantee Compliance with Research Security Requirements
  - Continue grantee review of internal controls, accounting systems and incurred costs.

# Promising Practices for Award Management

- Prepared by a consulting firm for the National Science Foundation.

<b>Common Findings</b>	<b>Percentage of Audit Reports with Finding</b>
Unallowable Expenses	94%
Inappropriately Applied Indirect Costs	83
Inadequately Supported Expenses	67
Inappropriately Allocated Expenses	55
Non-Compliance with Policies and Procedures	50

# Promising Practices for Award Management

- Recommendations:
  - **Continually** Monitor and Verify the Allowability of High-Risk Expenses
  - Strengthen Controls Over Applying Indirect Cost Rates
  - Ensure Award Recipients Create and Maintain Sufficient, Appropriate Documentation
  - Document and Justify Reasonable Allocation Methodologies
  - **Regularly Review** and Update Grant Management Policies and Procedures

# Financial Process Quality Review

- Internal systematic review of financial processes and transactions with the intent of adapting to emerging issues, changing audit landscapes and ensure transparency.
- Case Study
  - Gaps in oversight and segregation of duties
  - Risk factors: high volume of transactions, limited staffing, short turnaround deadlines.
  - Financial Quality Review:
    - Informal internal review (looking at old transactions with fresh eyes)
    - Document/current issues
    - Account assignment swap
    - Be curious

# Determinants of Allowability

All expenses that post to sponsored projects should conform to determinants of allowability. Per Uniform Guidance § 200.403:

- a) **REASONABLE** - Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- b) **CONFORMS TO LIMITATIONS** - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- c) **CONSISTENT** - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- d) **CONSISTENT** - Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

# Determinants of Allowability

All expenses that post to sponsored projects should conform to determinants of allowability. Per Uniform Guidance § 200.403:

- e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306(b).
- g) DOCUMENTED** - Be adequately documented. See also §§ 200.300 through 200.309 of this part.
- h) Cost must be incurred during the approved budget period. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to § 200.308(e)(3).

# Prudent Person Test

- A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.



# Audit Readiness

- Having strong and mature internal controls, operating procedures and policies in place in support of research administration operations.
- Having strong systems in place will ensure success in the event of an audit (internal, external, planned or unplanned).
- For sponsored projects, documentation is the key to audit readiness:

*Documentation should speak for itself. Documentation tells the story of what transpired during a project period. When a project ends, the file should stand on its own. There should be no need for any additional explanation of any transaction or event beyond what is already on file as part of the transaction.*

## Sample Audit Findings

- The National Science Foundation Office of the Inspector General publishes summary reports of Performance Audit of Incurred Costs:

<https://oig.nsf.gov/reports-publications/reports>

# Sample Audit Findings

- Example 1:

In April 2022, after discussions with NSF, OU awarded a \$1,470,000 fixed amount subaward to the XXXXX to perform research necessary to achieve the objectives of NSF Award. \$1,274,864 of the subaward was invoiced during the audit period. Although NSF was aware of OU's intention to issue a fixed amount subaward, NSF's approval did not explicitly state that it approved a fixed amount subaward nor did it specifically approve the issuance of a fixed amount subaward over OU's Simplified Acquisition Threshold of \$150,000. As **NSF did approve the issuance of the subaward, but did not specifically approve the issuance of a fixed amount subaward** above OU's SAT, the \$1,124,864 in costs invoiced in excess of OU's \$150,000 SAT are unallowable.

# Sample Audit Findings

- Example 1:

Explicit written approval from the correct authorized sponsor official.

# Sample Audit Findings

- Example 2:
  - In November 2021, OU charged NSF Award No. for \$2,823 in website development service expenses. OU did not provide a service agreement or other documentation to support the scope of services provided, the POP for the services, or the service provider's rates to support how the service provider calculated the amounts charged and/or how OU verified that the rates were reasonable.

# Sample Audit Findings

- Example 2:
  - Supplier Onboarding
  - Sample invoices
  - Requesting invoice changes

# Sample Audit Findings

- Example 3:
  - Between June 2017 and September 2021, OU charged NSF Award No. for \$220,609 in Cost Of Education allowances for 16 students participating in OU's GRFP. However, because OU was only allowed a COE of \$12,000 for each of the 16 students, or \$192,000, \$28,609 of the amount charged for COE allowances was unallowable.

# Sample Audit Findings

- Example 3:
  - Review of additional terms and conditions for non-traditional funding mechanisms
  - Approval of budget line item must still comply with determinants of allowability (per diem rates, cost of education allowances, student stipends, etc)




# Sample Audit Findings

- Example 4:
- In February 2022, Dartmouth charged NSF Award No. for gift card expenses associated with incentives paid to participants who completed research interviews. Although the majority of the incentive payments appeared allowable,<sup>22</sup> one of the gift card costs charged to the award was distributed to a Dartmouth employee rather than to award participants, as required per Dartmouth's policy. Dartmouth noted that it issued the gift card to the employee received because the employee had paid five award participants using personal checks and cash, rather than paying the participants using one of the approved payment mechanisms within Dartmouth's *Research Participant Payments Policy and Procedures*.

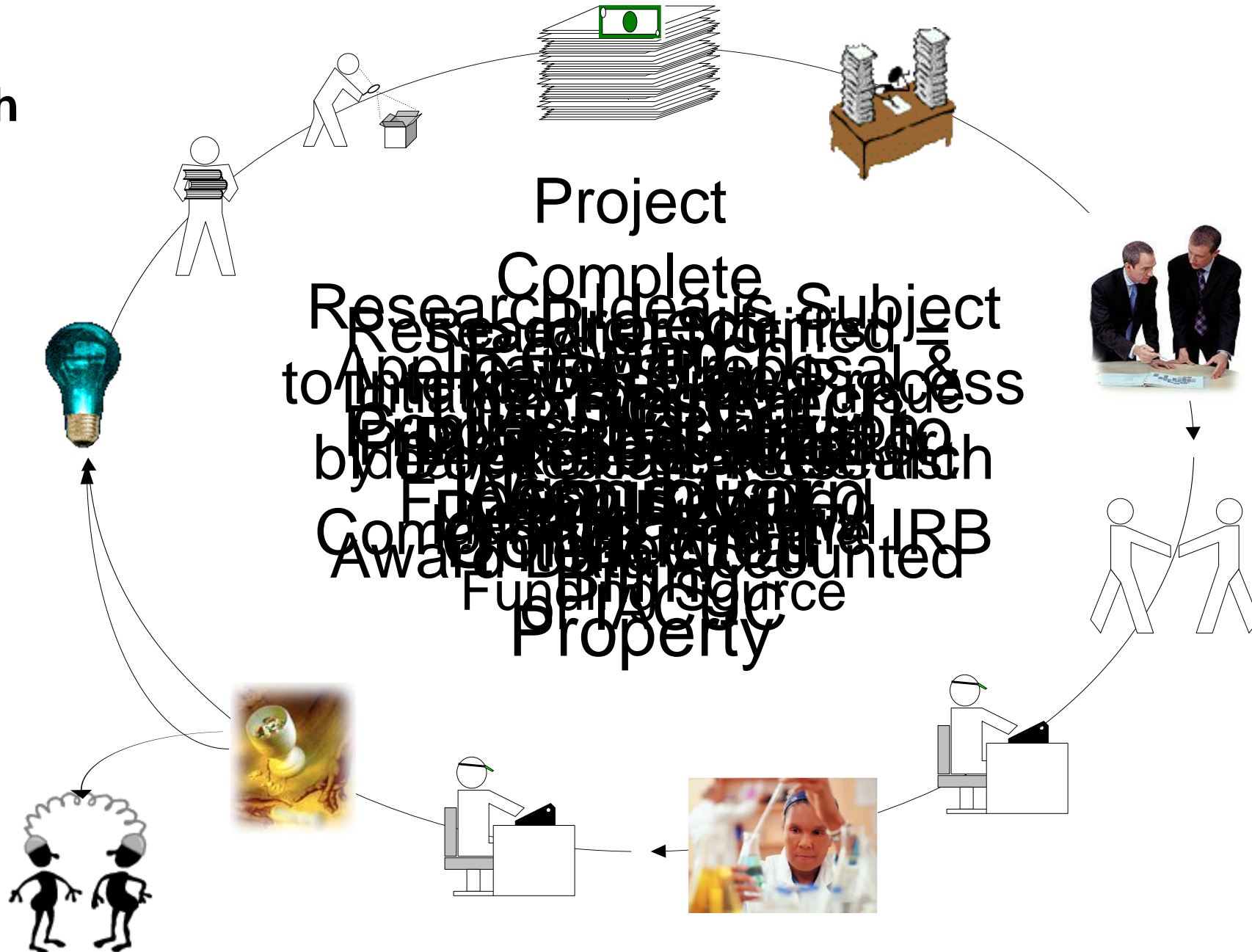
# Sample Audit Findings

- Example 4:
- Human subjects payment training:
  - Departmental training regarding policies regarding gift cards (how to safeguard, issue, tax implications, best practices, etc).
  - Provide 1-pager when gift cards are requested
  - Provide additional reminder when gift cards are delivered to project team
  - Encourage the employees to have the university direct pay rather than have employees be reimbursed (adherence to policy)

# Audit & Audit Risk in Research

- General Research Cycle & Related Risk Considerations
  - Importance of understanding rules and regs; and requirements in award documents
  - OIG Work Plans
  - Nature of audit processes
  - Documentation
  - When You Are Audited
- Some Specific Audit Risk Areas:
- Conflicts of Commitment/Interest
  - Access Controls
  - Export Control
  - Foreign Travel
  - Indirect Costs / F&A
  - Research Data
  - Shadow IT
  - Subrecipient Monitoring
  - Time & Effort / Effort Distribution
- 

# General Research Cycle





# What are the key risks associated with research?



10 Key Audit Risk Mitigations:  
Start Before the Research Idea is Born




Continue Throughout the Research Cycle



- 1) Researcher Should Understand Related Rules and Regulation
- 2) Work with University Research Accordingly
- 3) Understand how the research proposal will be implemented
- 4) Prepare to ensure implementation addresses the key requirements of the research award
- 5) Plan Ahead for Intellectual Property
- 6) Plan and maintain key documentation
- 7) Process exists to Manage and Protect Research Data in all its forms
- 8) Protect Research Subjects (human, animal, etc.)
- 9) Protect Confidential & Intellectual Property Data
- 10) Understand Project Closeout Process and Ensure Proper Project Closeout

## Other Risk Mitigation Strategies

- Federal Office of the Inspector General Work Plans
  - Understand the Nature of Audit Processes
  - Documentation, Documentation, Documentation
  - Training and More Training
  - Work with Your University Sponsored Project Management Offices
  - Working with Your University Research Compliance Team
- 



# When You Are Audited:

## Internal Audit vs External Audit (Feds, Sponsors, Single Audit, etc.)

- Internal Audit:
  - Typical focus: process-oriented internal controls
  - Like you, helping prevent external audit issues
  - Be fully transparent – Provide what is requested as well as what you know will provide related context, support, etc.
  - Identify known process, control, and compliance issues up front
- External Audit (AZ OAG, Feds, etc.):
  - Contact Research Admin before responding
  - Investigation More Than Audit?
    - Contact General Counsel before responding
    - May apply attorney-client privilege if applicable
  - Provide Only what is requested
  - Track or Maintain Copies of Everything Provided

# Conflicts of Commitment & Interest

Conflicts of commitment are generally situations in which a researcher is dedicating time to personal activities in excess of the time permitted by institutional policy, or to other activities that may detract from his or her primary responsibility to the institution. The issue here is not necessarily financial or bias in one's judgment, but rather whether one's commitment of time and effort are inconsistent with one's commitment to the institution and its interests.

Some examples of conflicts of commitment:


- A faculty member dedicating more than the permitted one day per week on personal consulting with a company or companies.
- A faculty member accepting an unpaid position on a company's Scientific Board of Advisors and having access to and/or divulging confidential information when the company is sponsoring the faculty member's research.
- A faculty member uses institution resources, including office or laboratory space and secretarial services in support of his or her personal consulting.

A conflict of interest exists when two or more contradictory interests relate to an activity by an individual or an institution. The conflict lies in the situation, not in any behavior or lack of behavior of the individual. That means that a conflict of interest is not intrinsically a bad thing.

- Examples include a conflict between financial gain and meticulous completion and reporting of a research study or between responsibilities as an investigator and as a treating physician for the same trial participant.
- Institutional examples include the unbalancing of the institutional mission by acceding to the space requests of a large donor for an idiosyncratic program.

"A conflict of interest in research exists when the individual has interests in the outcome of the research that may lead to a personal advantage and that might therefore, in actuality or appearance compromise the integrity of the research." NAS, Integrity in Scientific Research

# Conflicts of Commitment & Interest

- Completeness & Transparency of Disclosures in Proposals
    - Researcher Discloses Relationships, Activities, Interests
  - University Conflict Oversight
    - University Reviews Disclosures and Determines Conflicts
  - Researcher Transparency Throughout the Research Life Cycle
  - Research Proposal Conflict Reporting Aligned with University Conflict Reporting
  - Conflict Management Plans:
    - Appropriateness & Completeness
    - Follow-Through & Monitoring
    - Plan Follows Individual to New Supervisors
  - IRB / IACUC Awareness
  - Documentation, Documentation, Documentation
  - Completeness & Transparency in University Reporting
- 

# Access Controls

- Physical / Electronic Access should be controlled for:
  - Financial Research Records / Data
  - Research Space / Labs
  - Physical & Electronic Research Data
  - Subject records / data
- Access Limited to Those Who Need to Know – Throughout the Research Life Cycle
- Public Research Data and Research Cores:
  - Typically require less control, but...
  - Integrity of the data should still be protected

# Export Control

Federal regulations designed to regulate the distribution of: information, items, technology, and services, including such as may be used in research, for reasons related to U.S. foreign policy and national security.

Regulations are administered by three federal agencies:

- Department of Commerce, Bureau of Industry and Security: Export Administration Regulations (EAR)
- Department of State: International Traffic in Arms Regulations (ITAR)
- Treasury Department: Office of Foreign Assets Control (OFAC) and the Federal Acquisition Regulation Final Rule on Employment Eligibility Verification

Export Control regulations are complex without clear guidance on implementation mechanisms and

- there are many areas of research for which export control concerns may not be evident at the time of award of a sponsored project or at other points in time for unsponsored work or activities,
- making it sometimes difficult to identify a research project as being subject to the regulations

# Export Control

In many cases Export Control risk is limited at Universities due to the Fundamental Research Exclusion. Fundamental Research, as defined in the Export Control Regulations, includes basic or applied research in science and / or engineering at an accredited U.S. institution of higher learning where the resulting information is ordinarily published and shared broadly in the global scientific community. University research will not qualify as fundamental research if:

- 1) The institution accepts any restrictions on the publication of the information resulting from the research other than limited prepublication reviews by research sponsors, to prevent inadvertent divulging of proprietary information or to ensure that publication will not compromise patent rights of the sponsor; or
- 2) The research is federally funded and specific access or dissemination controls regarding the resulting information have been accepted by the university or the researcher.

- Risks that may not be limited to university's research organization:
  - Other impacting or impacted departments including Finance, Information Technology, Purchasing, others
  - Formally-designated Export Control Administrator
  - Complete periodic export control risk assessments
  - Manage physical shipments and communications about tech/devices subject to export control regs
  - Identify and manage travel abroad risks with export control devices or data prior to travel
  - Monitor / address impact of regulatory changes
  - Researchers & vendors scanned to ensure University not doing business w/parties blocked, denied, debarred or otherwise restricted by one of the federal agencies administering Export Control
- Formally identify and track all export control projects
- Related portable devices and data are encrypted
- Periodic Export Control compliance training

# Indirect Costs / F&A

2 C.F.R 200 for Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Appendix III to 2 C.F.R. 200, "Indirect (F&A) Costs Identification and Assignment, and Rate Determination for institutions of Higher Education" addresses requirements related to the reimbursement to a university for facility and administration (F&A) costs, also known as indirect costs. Sponsored project award expenses are two-fold:

- Direct costs: Those costs directly related to completing the applicable research. Direct costs may include items like salaries for faculty and staff leading/and or conducting the research, supplies, equipment, travel related to the project, and stipends for graduate students, etc.
- F&A or indirect costs (IDC): Those costs that can be charged to a sponsored project as a percentage of award direct costs that are intended to support the University infrastructure / overhead that enables such projects to occur.
- Infrastructure costs are not easily attributed to specific awards = cost of facilities, utilities, and administrative personnel supporting all or multiple sponsored projects (may include construction / maintenance of high-tech labs; utilities such as lighting, water, air conditioning, and heat; telecommunications, internet, data storage, safety equipment; and personnel to comply with applicable regulations). How well defined by your university?
- IDCs accurately recovered in accordance with standard rate agreement or sponsor agreement
- Actual IDC recoveries properly posted to financial records
- Overhead and related calculations are methodically developed and subject to review approval in setting the university's federal indirect cost recovery rate
- IDC rates that do not conform to requirements (waiver on indirect costs rate) are subject to review and approval
- Processes supported by formal policies, procedures, and training

# Subrecipient Monitoring

Subrecipient: third-party entity that performs a portion of an externally funded university-sponsored project. Subcontracts, subawards and subgrants made by a university under federal grants, contracts and cooperative agreements are subject to federal subrecipient monitoring guidelines. Likewise, subcontracts from other entities (universities, local government units, states, etc.) funded by federal agencies are subject to the same regulations as federal awards made directly to the university. A university has the responsibility throughout the life of an award to monitor the activities of subrecipients in accordance with the prime agreement to ensure:

- Awarded funds expended in compliance with federal & state regulations and ABOR policies,
- Project is implemented in accordance with the terms of the subrecipient agreement, and
- Research performance goals are achieved, and deliverables are submitted on a timely basis.

- Overall reporting of subrecipient activity exists to monitor risks and opportunities
- Subrecipient grant activities are accurately and completely reported and closed-out
- Invoices from subrecipients are properly reviewed for compliance and timely paid
- A process/system exists to manage the proposal routing for review and approval
- A process/system exists to manage and monitor grant activity and subrecipient requirements, including routine communication with subrecipient
- Conflict of interest is timely identified and properly managed
- Human and animal subject subrecipients receive the proper approval from their respective regulators
- All research subject to subrecipient monitoring is monitored to ensure applicable compliance
- Procedures with supporting evidence exist to ensure that potential or current subrecipients are not on the Excluded Parties List



# Other Research Audit Considerations

- Foreign Influence and Foreign Travel:
  - Addressing implications to the interests of the United States when receiving funding from other countries and when traveling to and from other countries
- Electronic Research Data:
  - Addressing various risks including effective management and protection of research data, including financial records, research analysis, research subject information
  - Impact of AI going forward
- Shadow Information Technology:
  - Addressing risks of managing lab specific technology not managed by central university IT:
    - Infrastructure cost and maintenance
    - Data classification, management, and protection
    - Firewalls and other cybersecurity protection mechanisms
- Time and Effort Reporting:
  - Avoiding conflicts of commitment with federal, federal pass-through, and state funded awards
  - Proper understanding and tracking of effort



# Thank You!

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