

Surviving an Audit



Agenda

1. Types of audits & why audits are performed.
2. Proactive audit techniques.
3. Audit preparations.
4. Audit practices.
5. Post-audit steps.

Reason for Audits

Audits help ensure:

- Compliance with laws, rules, and regulations.
- Appropriate utilization of resources.
- Risks are effectively minimized.
- Effectiveness of control structure in preventing and detecting errors/irregularities.

Internal Audits

1. Audits of decentralized controls:
 - Payroll (including extra comp)
 - Effort reporting
 - Purchasing (including PCard)
 - Travel and expense reimbursement
2. Department/Unit/PI-based audits.
3. Sponsored research specific audits.

External Audits

1. Sponsor audits: project or sponsor specific.
 - Programmatic
 - Financial
 - Closeout audit
 - Investigatory
2. Office of the Inspector General (OIG) for-cause or not-for-cause audits.
3. Auditor General annual A-133 review or operational audit.

What Do Auditors Look For?

Adequate Controls

- Established policies and procedures.
- Consistent application of policies/procedures.
- Transactions properly documented, approved, recorded, and reported.
- Duties properly separated.

Allowability

- Reasonable, necessary, and directly related.
- Complies with A-21, sponsor and project terms and conditions.

Allocability

- Allocated based on direct benefit to and within time frame of the project.

Common Audit Findings: Payroll

Extra Compensation

- Rate of pay is not consistent with base.
- Unreasonable term of service.
- Does not comply with University regulations.

Payroll Costs

- Not within term of projects.
- Transfers not processed timely or justified.
- Effort reports not accurate, certified timely or properly authorized.
- Leave payouts not properly allocated.

Common Audit Findings: Expenditures

- Insufficiently supported costs charged to projects.
- Costs without required special approvals (including CAS exceptions).
 - Intra-institutional consulting, subcontractors, or contract services.
 - General purpose equipment or administrative costs.
 - Foreign travel.
- Unallowable Costs.
 - Outside project term.
 - Capital equipment at end of project term (without a noted exception).
 - Not directly related or inappropriately allocated to the project.
- Cost transfers not processed timely or properly supported.

Common Audit Findings: Travel

- Expenditures not properly supported.
 - Not pre-approved (Travel Authorization Report)
 - Receipt must be detailed and legible.
 - Business purpose before/after conference not documented.
 - Direct benefit to project not documented.
- Dual-purpose travel not properly allocated.
- Travel cost charged to wrong project.
- Not allowable under sponsor terms.

Common Audit Findings: Contractual Services

- Subcontract negotiated after services rendered.
- Large upfront, fixed price payments.
- Insufficient documentation for billings.
- Insufficient evidence of work performed.
- Used unreasonable rates.

Common Audit Findings: Monitoring/Oversight

- Sub-recipient monitoring procedures not adequate.
- Debarred vendor procedures not consistently performed.
- Sole source documentation not adequate/retained.
- Financial reports not submitted timely.
- Incompatible duties not segregated.
- Independent reconciliations not performed.

Steps To Take When Audit is Announced

Immediately notify appropriate individuals of external audit.

- Research Financial Management/Division of Sponsored Research.
- RFM will notify University Audit & Compliance (Financial/For Cause only).
- College leadership, as appropriate.
- Ensure award administration is up-to-date.

What to Expect in a Financial Audit

- For external audits, RFM coordinates and responds to written requests from auditors for policies, financial reports, and documentation of specific transactions. For internal audits, UAC sends requests to the department audit liaison.
- RFM coordinates interviews/correspondence with administrative staff and principal investigator as needed.
- RFM coordinates testing of specific transactions for compliance.
- RFM coordinates written report of findings (external and internal) and recommended corrective actions (internal only).

What to Expect in a Programmatic Audit

- For external audits, Sponsored Research/RFM coordinates and responds to written requests from auditors for policies, non-financial and financial reports, and documentation of specific transactions. For internal audits, UAC sends requests to the department audit liaison.
- Sponsored Research coordinates interviews/correspondence with administrative staff and Principal Investigator (PI), as needed.
- Sponsored Research coordinates requests for PI project presentations and/or facility tours.
- Sponsored Research coordinates interviews/correspondence with participants (those not affected by privacy issues) to gauge effectiveness of outreach programs.
- Sponsored Research/RFM coordinates reviews of programmatic report schedules/task-based deliverables vs. project “burn rate.”
- Sponsored Research/RFM coordinates written report of findings (external and internal) and recommended corrective actions (internal only).

Keys to a Successful Audit

- Ensure project personnel have knowledge of policies and regulations (PI and administrators).
- Maintain complete records, in organized files, including documented approvals.
- Designate an audit liaison who works to resolve issues as they arise.
- Respond in a timely manner to all requests for information.

Tips During an Audit

- Respond to audit requests timely or provide reasonable deadlines for providing documentation.
- If you are unsure about what is being asked, seek assistance from RFM, Sponsored Research or UAC.
- When dealing with external auditors, collaborate with RFM and Sponsored Research when responding to auditor issues and requests.

More Audit Tips

- For financial audits, RFM is the single point of contact with sponsors. RFM reviews all financial information being sent to an external auditor to ensure it is complete and consistent with the request.
- Information provided should not be modified and should be complete. Do not exclude items.
- Speak concisely when responding to questions; don't ramble or provide unnecessary information.
- If the sponsor does not include RFM/Sponsored Research on correspondence, immediately forward to them.

Post-Audit Steps

- Review finding for potential systemic issues.
- Make sure deficiencies are corrected in a timely manner.
 - Removal of disallowed expenditures (Department or RFM).
 - Restatement of financial status reports (RFM).
 - Establish new procedures as needed (Department).
 - Resolve staff training issues (Department).
- Share results with colleagues who can learn from your experiences (CRAN).

Proactive Techniques

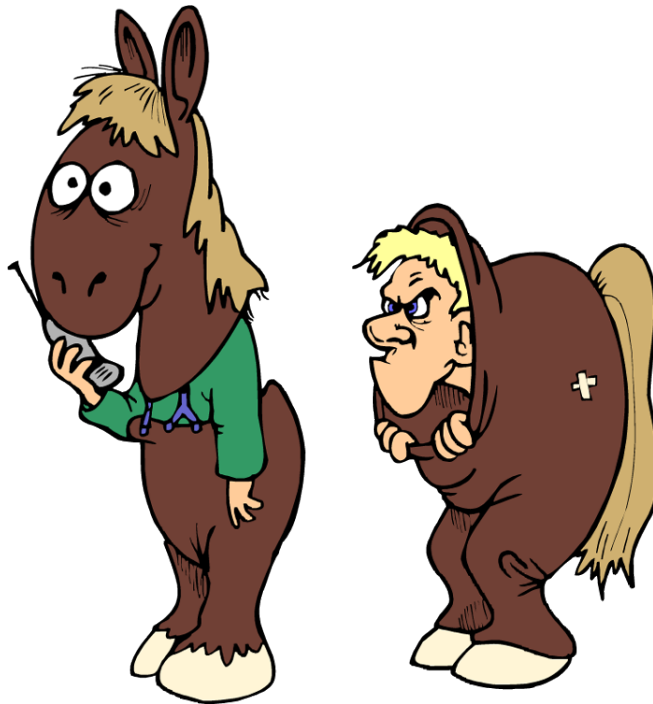
- Read and retain a copy of proposal and award.
- Train administrators on rules and regulations.
- Maintain adequate documentation of expenditures, as well as costshare and PGI, if applicable.
- Obtain special approvals and authorizations.
- Explain unique transactions in advance.
- Review and reconcile* financial records monthly.
- Perform independent reviews of high risk transactions.
- Apply policies/procedures consistently.
- File financial reports timely.
- Minimize cost transfers.

*To learn more about the Award Reconciliation Process refer to:

http://www.research.usf.edu/TRAIN/files/AwardReconciliation_TRAINing_guide.pdf

Conclusion

It's our choice...



Risk can be managed with *foresight*.

Damage is managed with *hindsight*.

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Congratulations

You have completed this module!



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