

**GRANT COORDINATOR MEETING 9/28/06
SPONSORED PROGRAMS ACCOUNTING**

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FISCAL COMPLIANCE MONITORING

Sponsored Programs Accounting, in hopes of educating the ISU sponsored programs community, has developed a Fiscal Compliance Monitoring initiative for federally funded awards. The plan for this initiative includes identifying high risk areas for transaction testing, performing random sampling and review of costs in those high risk areas, and documentation and communication of the related findings. Examples of identified high risk areas for testing might include: purchase of general office supplies on federally funded awards, clerical & administrative salaries on federally funded awards; and the purchase of general purpose computers on federally funded awards. During transaction testing, department/center/unit representatives will be periodically contacted for expense documentation and justification.

Findings will be documented in writing and communicated with the necessary parties within 45 days following completion of transaction testing. Those departments, centers and units with findings will be given an opportunity to respond, with SPA's focus on educating departments about the best way to handle like transactions in the future. Information on findings will be presented at the quarterly Grant Coordinator Meetings. Periodic follow up and review of those departments, centers and/or units with findings will occur to ensure that unallowable transactions identified during the transaction testing phase have been corrected and that like transactions are now being handled appropriately.

In addition to transaction testing, a questionnaire will be developed and sent to ISU departments, centers and/or units that will serve as an Operational Review of the administration of 4XX accounts. Once the questionnaires have been completed and returned to Sponsored Programs Accounting, the questionnaires will be reviewed and rated according to set criteria in an attempt to identify those departments, centers and/or units that may need further review.

2006 COMPLIANCE SUPPLEMENT

The Office of Management and Budget (OMB) has issued the Circular A-133 Compliance Supplement for 2006. This supplement suggests procedures for auditors to follow while conducting the A-133 audit. The supplement was updated to include areas of vulnerability for the auditors to consider. ISU's annual A-133 audit is performed by state auditors.

The following three areas were identified:

Compensation and Related Benefits- Auditors are instructed to pay close attention to payroll distribution methods and certification of payroll (EASE at ISU). The supplement states that one of the principal internal control weaknesses associated with the recent cases of noncompliance is the failure to make the required confirmation in an accurate and timely manner.

Auditors are instructed to test for:

- Salaries are confirmed by a person with first-hand knowledge (employee, supervisor, PI) using suitable means of verification of the work performed
- Salaries paid conform to the established policy of the institution, on a consistent basis, regardless of funding source
- Salaries paid do not exceed any salary restrictions, e.g. NIH salary cap

Cost Transfers- Auditors are instructed to test cost transfers for allowability, including adherence to institutional policy. The supplement states that a significant number of cost transfers between unrelated projects could be an indication of poor internal controls.

Commitments of Key Personnel- Auditors are instructed to determine if changes exist in the commitment of key personnel, and whether the required approvals, if needed, have been obtained from the Federal awarding agency. OMB Circular A-110 requires recipients to obtain prior approval for absences of the PI or project director for more than three months, OR for a 25 percent reduction in time devoted to the project by the PI or project director.

FFY06 HHS AND NSF AUDIT WORK PLANS

The Office of Inspector General (OIG) for HHS and NSF have published their audit work plans for FY06. The HHS OIG audit work plan includes audits in the following areas:

Level of Commitment- HHS OIG will review whether PIs have committed more than 100 percent effort when applying for NIH grants, and whether this resulted in inflated effort in grant awards. NIH believes the quality of research can be affected when more effort is promised than is available.

Subrecipient Costs and Monitoring- HHS OIG will review grantee compliance with subrecipient monitoring. Grantees are required to monitor progress and costs of subrecipients. Expected monitoring activities include site visits, review of performance reports, review of financial reports (invoices), and assessment of risk. Contact Lisa Shoemaker in SPA if you have any questions.

Administrative and Clerical Salaries- Per OMB Circular A-21, the salaries of administrative and clerical staff should usually be treated as indirect costs, and not directly charged to the award. There are instances where the direct costing of these salaries is appropriate. Please refer to ISU's Sponsored Programs Costing Policy for additional details. HHS OIG will review these costs to determine whether grantees have appropriately charged salaries for administrative and clerical staff.

Cost Transfers- During recent audits, HHS OIG has found many cost transfers that were either unallowable or not properly documented. HHS OIG will review cost transfers for allowability, including whether the cost transfers are supported by adequate documentation explaining how the error occurred. A complete justification for cost transfers to 4xx accounts must be provided on correction vouchers completed by ISU departments.

The NSF OIG audit work plan includes audits in the following areas:

Effort Reporting- NSF OIG will review grantees for compliance with effort reporting requirements.

General Audits- NSF OIG will be performing audits at universities to determine if grantees are complying with award requirements, and whether funds are being properly accounted for. This could include review of cost share, adherence to special award conditions and NSF policies, and the allowability of costs. ISU was recently notified by NSF OIG of its intent to review a grant that included international collaboration, and ISU has submitted information in response to their first request.

YALE UNIVERSITY – HHS AUDIT OF SUBAWARD

Yale University was issued a subaward by the University of Massachusetts Medical School under a prime NIH grant. This subaward was audited by HHS OIG, who recommended disallowances of ~\$194,000 for the \$572,000 subaward. Subsequently, NSF, NIH and DOD have requested additional information from Yale on 47 grants and contracts.

The HHS OIG findings can be categorized into three general areas:

Cost Transfers- HHS OIG recommended that 29 cost transfers be disallowed. The subaward was issued four months after the project's start date. Some of the costs incurred prior to the award being issued were charged to other sponsored program accounts that were in overspent status at the time of the cost transfers. Some of the cost transfers were not properly authorized, some lacked specific detailed justifications and explanations, and some did not comply with institutional policies. Salary transfers to the project, where certification of effort had previously taken place, were also scrutinized.

As previously discussed in Grant Coordinator meetings, the use of advanced accounts reduces the need for cost transfers. In addition, every cost transfer should have a specific detailed justification.

Effort Reporting- HHS OIG recommended that salary costs be disallowed for two unsigned effort reports. No certification of actual effort performed had been made. Also, the PI committed 25% effort to the project in the proposal, but charged much less of his time (11% and 5%) to the project. The difference represented more than a 25% reduction in the PI's time,

which requires prior approval by NIH. The PI had not obtained NIH approval, and had not documented his unpaid effort.

Inappropriate Cost Allocation Methods- OMB Circular A-21 states that a cost is allocable to a project if it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods. HHS OIG found that certain methods used by Yale to allocate costs were not appropriate. For example, the PI had allocated charges for supplies between the three major projects in his lab, without documentation to support consumption. HHS OIG stated that the actual consumption usage should be documented or approximated, and that costs should also be allocated to the smaller projects in the lab. This same allocation method was applied by the PI to equipment maintenance costs. Again HHS OIG stated that no documentation existed for actual equipment usage to justify the amounts that were allocated to the three projects.

The methods used by ISU departments to allocate costs to sponsored program accounts need to be documented in writing, and support for these charges needs to justify how these allocations have been determined and how all projects benefiting have been charged.

OTHER ISSUES/CONCERNS/QUESTIONS