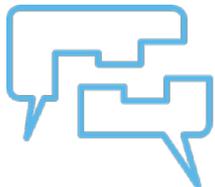


What to Watch Out For – Recent Settlements and Audit Focus Areas



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Introductions



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- > Summary of Audit Finding Areas
- > Examples of Recent Federal Audits and/or Settlements
 - Office of Inspector General Audits
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 - Salary Charging
 - Multi-year Grant Accounting Investigation
 - Overstated Anticipated Expenses, Improper Accounting, and Failure to Provide Matching Funds
- > How Internal Audit Can Help
- > Potential future audit focus areas

Session Objectives



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- 1) Present six examples of recent audit findings and/or False Claims Act settlements between research universities and the federal government
- 2) Identify the compliance aspect(s) involved and control gaps present in each example
- 3) Reinforce audit tips for the compliance areas included and provide “food for thought” for universities related to research operation risks

Summary of Audit Finding Areas

Consistent Audit Finding Areas – The “low hanging fruit”



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Though each sponsoring agency’s Office of Inspector General (OIG) develops an annual workplan, universities across the country have consistently received audit findings in a number of key areas over the past several years:

- > Consistent treatment of direct and indirect costs
- > Cost allowability
- > Cost transfers
- > Payroll distribution/effort reporting
- > Subrecipient monitoring
- > Tracking and reporting of cost sharing

Emerging Audit Finding Areas – The changing landscape of federal regulations



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In addition to the “standard” audit findings that have been a focus of OIGs in the past, a number of other audit areas have emerged recently due to changing federal priorities and/ or regulations, including:

- > Adequacy of internal controls
- > American Recovery and Reinvestment Act (ARRA)
 - Accuracy of jobs reporting data
 - Segregation and tracking of ARRA funds
 - Timeliness of quarterly reporting
- > Data management and security
- > Direct charging of administrative costs
- > Quality control reviews of A-133 audits

Recent Settlements and Audit Findings – Office of Inspector General Audits

Audit Example #1 – Grant Management and General Internal Controls: Background



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August 2011 – The National Science Foundation (NSF) OIG’s audit of a growing research institution as part of an on-going series of limited scope evaluations providing oversight of ARRA funds.

- > The university was selected for audit because it had received a significant increase in NSF funding in the past two years, and because of the increased accountability associated with ARRA-funded awards
- > The university has eight ARRA-funded NSF awards, representing roughly 27 percent of the NSF-funding received
- > Audit focus was to assess if the university “has the capabilities and systems in place to provide proper stewardship of federal assistance funds”

Audit Example #1 – Grant Management and General Internal Controls: Findings



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Though the audit report commended the university for having “established sound grants management policies and procedures” and having employees who were “knowledgeable and have a high commitment for ensuring a fully compliant federal grants management program”, they cited “significant” internal control weakness in:

- > Expenditure of funds outside the award scope
- > Lack of subaward management and excessive cost transfers
- > No established policies for summer salary oversight and independent reviews of effort reporting system
- > Lack of suitable means of verification in effort reporting
- > Insufficient management, oversight, and monitoring of federally-funded property

Audit Example #1 – Grants Management and General Internal Controls: Impact



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The audit results raised major internal control concerns for the university, including questioning nearly half of the costs charged to a \$1.3 million NSF award. The university's response resulted in:

- > Removal of various costs to federal awards (exact amount not disclosed)
- > Updates and revisions to institutional policies
- > Development and implementation of training programs for university researchers

Audit Example #2 – Complex Program Management: Background



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March 2011 – NSF OIG Audit of costs claimed on three research awards for the period of November 1, 2003 to September 30, 2009.

- > Total funding for the three awards equaled \$17.5 million from NSF and \$5 million in claimed university cost share
- > Awards were selected due to high level of subawards associated with each, including “large salary and indirect cost expenditures” and requiring “substantial cost sharing” by the university and its subawardees
- > Prior audits of the university have identified “material noncompliance and internal control weaknesses in its financial grant administration”

Audit Example #2 – Complex Program Management: Findings



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Found the majority of costs to be allowable, allocable, and reasonable. However, the audit identified “five significant compliance and internal control deficiencies” calling into question over \$1.7 million of NSF funds and nearly \$10 million of “at-risk” cost share:

- > Lack of effective system for monitoring costs claimed by subrecipients
- > Inadequate monitoring of cost share commitments
- > Participant support costs are not identified, segregated, and monitored to ensure fulfillment of related commitments
- > Late effort certifications and lack of suitable means of verification
- > Inadequate training for responsible personnel on compliance requirements and NSF terms and conditions

Audit Example #2 – Complex Program Management: Impact



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With such a high-level of questioned costs involved, including a significant amount of “at risk” cost share, the university’s response resulted in:

- > Implementation of a new effort reporting system
- > Revision of subrecipient monitoring and risk assessment system
- > Enhancement of processes for monitoring subrecipient costs, with particular focus on participant support costs
- > Revision of cost sharing review and certification process
- > Design and implementation of training on NSF award compliance

Audit Example #3 – Follow-up on Previously Identified Internal Control Weaknesses: Background



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March 2011 – NSF OIG Audit of performance of internal controls during the period July 1, 2008 to June 30, 2009.

- > During this period, the university claimed \$1.1 million in expenses across nine active NSF awards (total award value of \$6.1 million)
- > A previous audit had identified internal control weaknesses related to financial and compliance reporting and overall award administration

Audit Example #3 – Follow-up on Previously Identified Internal Control Weaknesses: Findings



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Over \$350,000 in questioned costs and greater concerns that, if left uncorrected, “the internal control and compliance weaknesses...may continue to occur and affect...any future NSF awards.” These findings were largely due to university employees not following policies and procedures regarding:

- > Budget transfers
- > Monitoring budget to actual costs (especially participant support costs)
- > Travel policies
- > Equipment purchase and inventory
- > Payroll and fringe benefits
- > Accounting and reporting of indirect costs
- > Compliance with own information technology (IT) general controls

Audit Example #3 – Follow-up on Previously Identified Internal Control Weaknesses: Impact



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The university disagreed with a significant number of the questioned costs and internal control deficiencies. However, many of the university's explanations for their disagreement were in conflict with information provided to the audit team, and the auditors recommended NSF again follow-up with the university to determine if necessary improvements were made.

The university did agree with certain findings, and took the following corrective actions:

- > Repaid nearly \$71,000 in questioned costs
- > Adjusted the calculation for, and application of, indirect costs
- > Improved internal IT controls

Recent Settlements and Audit Findings – False Claims Act Settlements

Settlement #1 – Salary Charging: The Case



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February 2004 – A Whistleblower brought a False Claims Act allegation that the university had knowingly overcharged for employee salaries on awards sponsored by the National Institutes of Health (NIH).

- > Overstated the amount of time researchers worked on federal research projects
- > At least one example of charging more than 100 percent of an employee's salary

Settlement #1 – Salary Charging: Resolution



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NIH cited the university for failing to “maintain adequate compliance procedures to reconcile proposed and actual effort or charge correct fringe benefit amounts” and found that documents relied on when submitting claims were not reliable.

- > The university paid \$2.6 million to the government and agreed to investigate and identify any other unallowable costs already submitted

Settlement #2 – Multi-year Grant Accounting Investigation: The Case



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December 2008 – A leading research university cooperated with a government investigation focusing on charges to awards from over 30 federal agencies from 1999 to 2006.

The government allegations focused on the university:

- > Utilizing cost transfers to “spend down” available grant funds
- > Completion of inaccurate and overstated effort reports, resulting in salary overcharges

Settlement #2 – Multi-year Grant Accounting Investigation: Resolution



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The university acknowledged the charging errors, but disagreed on the nature and extent of errors.

- > The university paid \$7.6 million to the government
- > The university improved its research compliance administration and infrastructure, including several upgrades to its cost accounting and effort reporting systems and issuance of revised policies and procedures

Settlement #3 – Overstated Anticipated Expenses, Improper Accounting, and Failure to Provide Matching Funds: The Case



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January 2006 – A university was alleged to have submitted false claims on roughly 500 grants totaling more than \$40 million awarded by several agencies between July 1997 and December 2004. The specific allegations included:

- > Submitting grant applications with incorrect or overstated anticipated expenses
- > Charging unallowable expenses to grants, including summer salary above the allowable salary amount
- > Failing to revise its billing rate structure for service centers
- > Failing to provide cost sharing or matching funds as required

Settlement #3 – Overstated Anticipated Expenses, Improper Accounting, and Failure to Provide Matching Funds: Resolution



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The university paid \$2.5 million to the government and was also required to create a Compliance Agreement, which included:

- > Maintaining a comprehensive compliance program, under the supervision of a Chief Compliance Officer, for at least five years
- > Maintaining adequate accounting and budget records within all offices with responsibility for federal grants
- > Providing annual training for faculty
- > Performing annual audits for offices and departments engaged in federal research administration
- > Creation of a confidential disclosure program for anonymously reporting inappropriate practices or procedures

How Internal Audit Can Help

Internal Audit departments can assist institutions in building a culture of compliance related to sponsored research and evaluating concerns in the areas discussed throughout this webinar series. Particular focus should be given to:

- > Accounting system capabilities and utilization
- > Administrative controls for monitoring cost charging
 - Focus on allowability, allocability, and consistency of costs
- > Cost transfers
- > Payroll distribution/effort reporting
- > Training programs provided to Principal Investigators and research personnel

Potential Future Audit Areas

Audit workplans for FY 2013 have not yet been released, but the list below details potential areas of upcoming (or continued) audit focus based on recent legislative changes or audit findings:

- > ARRA
- > Financial conflicts of interest
- > Participant payments
- > Payroll distribution/effort reporting
 - Extra service compensation
 - Summer salary
- > Recharge/service centers
- > Travel

Summary

August 8, 2012
ACUA webinar – topic TBD

September 9-13, 2012
ACUA Annual Conference
San Antonio, Texas
(Registration is now open!)

> ACUA

- Promoting Internal Audit: www.acua.org/movie
- Listserv: acua-l@associationlists.com
- Forums: www.acua.org

> Baker Tilly

- www.bakertilly.com/Higher-Education

> Hogan Lovells

- <http://www.hoganlovells.com/education/>

> Council on Governmental Relations

- www.cogr.edu/

> National Council of University Research Administrators

- www.ncura.edu

Contact information



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Thank you for participating today! Remember CPE certificates will be emailed to you by ACUA Headquarters in about three weeks.

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