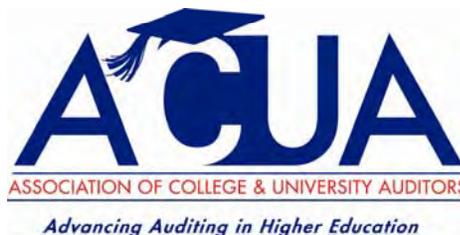


You Bought What!?! Auditing Complex Cost Areas in Research



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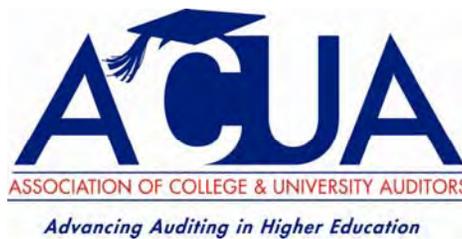


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Webinar Moderator
Toni Messer
ACUA President



Introductions



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Today's topics

- > Session Objectives
- > Background: Charging Costs to Sponsored Awards
- > Complex Cost Areas:
 - Cost Sharing
 - Cost Transfers
 - Participant Payments
 - Petty Cash
 - Service Centers
 - Subawards
 - Travel
- > General Audit Tips

- 1) Discuss the types of costs charged to sponsored awards.**
- 2) Describe common complex research-related cost areas, identifying regulations that apply to each.**
- 3) Provide audit tips and techniques for auditing complex cost areas.**
- 4) Identify common issues and concerns with complex cost areas.**

Background: Charging Costs to Sponsored Awards

Research awards have two main categories of costs that are incurred:

1. Direct expenses – Direct expenses are any costs which are incurred specifically related to the objectives of the award, and which cannot be attributed to any other award, project, or activity.
2. Indirect costs (Facilities and Administrative (F&A) costs) – Indirect costs are those incurred in the normal course of business and support more than just one individual award (e.g., general office supplies, computers, association dues, subscriptions, administrative effort, etc.).

Each direct and indirect cost can further be classified as allowable or unallowable; only allowable expenses can be reimbursed on a Federal award.

Office of Management and Budget (OMB) Circular A-21 stipulates that costs charged to Federal awards must be:

- > Allowable (i.e., not expressly prohibited by the cost principles)
- > Supportable (documented, with clear business purpose)
- > Within the approved budget and scope (justifiable)
- > Aligned with institutional policies and procedures
- > Able to pass the “AARC test” (see next page)
 - This is not a specific “test” listed in the regulations, but a helpful mnemonic to remember all the cost requirements.

An important test for costs charged to Federally-sponsored awards is to determine if the cost is:

- > **Allowable**: Is this cost prohibited for any reason, either by sponsor requirement or Federal regulation?
- > **Allocable**: Can this cost be supportably charged to this award?
- > **Reasonable**: Would a “prudent person” make the same decision on the purchase in similar circumstances?
- > **Consistently Treated**: Does your institution follow consistent practices in charging that type of cost?

Per OMB A-21, examples of costs that may and may not be charged to Federally-sponsored awards (allowable and unallowable costs) include:

Allowable	Unallowable
Salary (within sponsor regulations and thresholds)	Alcohol
Necessary equipment	Meals (other than related to travel)
Supplies	First-class tickets
Certain travel	Entertainment/social activities
Fringe benefits/F&A costs	Supplies or equipment for other projects/personal use
	Legal Fees

BUT, there are exceptions with every type of cost...

Complex Cost Areas

There are many types of costs that are incurred in the course of sponsored research that are complex in nature and may cause confusion. In the following slides, we highlight a few areas that are often subject to sponsor scrutiny, discuss common issues and concerns, and provide audit tips and techniques related to each:

- > Cost Sharing
- > Cost Transfers
- > Participant Payments
- > Petty Cash
- > Service Centers
- > Subawards
- > Travel

An institution may share or match costs on a project to cover the total expense of completing the work. Cost sharing can be committed (included in the project proposal/budget; possibly even required by the sponsor) or voluntary. Many times cost sharing is accomplished by:

- > Covering a portion of salary (which will need to be reflected appropriately in effort reports)
- > Not charging for F&A (indirect) rate recovery
- > Sharing the cost of major equipment
- > Paying for necessary facility upgrades or improvements
- > In-kind contributions

Cost Sharing – Common Issues and Concerns



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Shared costs can be included as a part of an institution's reported research activity, and often are required to meet commitments the institution has made to the sponsor. For this, all cost sharing for awards should be separately tracked and reported to the sponsor.

Federal regulations require that cost sharing be:

- > Verifiable
- > Allowable
- > Incurred during the period of the award
- > Not from other Federally-funded sources

Audit steps to test the appropriateness of cost sharing may include:

- > Review the accounting system to verify that costs claimed as cost share are being appropriately tracked and can be tied to the award to which they are being applied.
- > Ensure that costs contained in the cost share account are not paid by other Federal funding sources.

Cost Transfers – Overview



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By performing routine reviews of costs charged to an award, institutions can identify any costs which were inappropriately charged to an account*. These costs can then be transferred to the appropriate project, award, or a non-sponsored account.

While cost transfers will draw audit scrutiny, they are an expected component of research operations. If necessary, it's better to have cost transfers on (or off) an award than an inappropriate cost!

*Costs may be inappropriately charged because of allowability or allocability issues, due to a recording error, or just need to be transferred to specific accounts from a general holding account (e.g., rent expenses, procurement cards).

Cost Transfers – Common Issues and Concerns



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Cost transfers should be made as soon as possible. Delays in processing often will raise audit scrutiny and concern over the financial monitoring of an award.

- > The most commonly cited standard for processing cost transfers is the NIH's requirements that cost transfers be made no later than 90 days after discovery of the error (maximum 120 days from the date of the transaction).
- > If an inappropriate cost is discovered beyond 90 days, the cost transfer should still be made, though this is not ideal.

Cost transfers must include support for why the transfer was made. Costs should never be moved to free-up/spend available budget; costs must be charged appropriately!

- > If the relevant budget (or budget category) is overspent, the University will have to absorb the cost.

Audit steps to test the appropriateness of cost transfers may include:

- > Perform data analytics to determine the length of time elapsed between charges being made and cost transfers occurring.
- > Review supporting documentation for a sample of cost transfers to verify that they are appropriately approved and the reason for transferring the cost is valid and supportable.

Participant Payments – Overview



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Researchers will often use human subject participants to carry out their research. Once a researcher decides to pay a subject for participation in research, a number of points need to be considered.

- > Participant payments raise ethical issues around voluntary participation and the individual's need to make informed choices about research that are based on the real risks and benefits of participation, not on financial incentives.
- > Federal regulations offer guidance about such incentives, but set no strict limits. Researchers and Institutional Review Boards must decide how much payment is too much or not enough.

Participant Payments – Common Issues and Concerns



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Payments to research study participants raise many compliance and financial concerns that must be monitored. Issues and questions to consider include:

How much should a participant be paid?

- > Participants should be paid enough to make up for their time and trouble, but not so much that their decision to volunteer or continue in a study is influenced by the amount being offered.

How should participants be paid?

- > Depending on where the research is conducted (e.g., on-site versus off-campus), you may not want your researchers having access to large amounts of cash or gift cards. However, these risks must be balanced with the need for protecting participants personal information through the Accounts Payable process.

Are subject payments reported to the Internal Revenue Service (IRS)?

- > If a subject is paid a total of more than \$600 in a calendar year, the institution must report the payment to the IRS.

Participant Payments – Specific Audit Steps



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There are various potential audit steps depending on how participants are paid for research participation.

- > Overall, audit steps should clarify the process in place to understand how participant participation is tracked, and then verify records kept of participant activities against payments made.
- > Auditors should also review participant records to verify that consent forms have been completed by all participants and payment records comply with privacy concerns.

Petty cash funds are generally used for expenditures in connection with approved University activities, the amount and significance of which are so small as to preclude requesting disbursement by check.

Occasionally, specialized petty cash funds may be established:

- > For qualifying payments to human participants engaged in research activities, subject to specific procedures;
- > For use by university organizations that are located off campus;
- > For use by after-hour facilities;
- > For providing cash drawers;
- > For use by departments not located near a cashier fund;
- > For use by students on university projects.

Petty Cash – Common Issues and Concerns



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Petty cash accounts often present a complicated struggle between necessity and control. It is important to have strong processes and monitoring techniques in place to protect funds used for petty cash by documenting how it is used and who is receiving payments.

- > Certain types of expenses require tax reporting, income withholding, or are unallowable per Federal regulations.

Institutions should establish controls surrounding the appropriate use of petty cash funds. Examples of costs that should not typically be processed using petty cash include:

- > Payment of salary or wages, honoraria and other payments for services that are subject to reporting and withholding as taxable income;
- > Payments to individuals who are not U.S. citizens or permanent residents;
- > Personal check cashing or personal cash advances; or
- > Any cost which would normally be unallowable on a sponsored award.

Tips for Maintaining a Petty Cash Fund

It is recommended that the amount of the fund requested should be limited to minimum operating requirements to reduce the potential loss of cash through theft.

- > A best practice is to limit the amount of a petty cash fund to the anticipated petty cash expenditures for the next two weeks.

A fund custodian should be assigned to maintain the petty cash box and perform the following:

- > Reconcile the fund on a routine basis (at least monthly);
- > Close the fund immediately if the purpose for which it was established ends or changes significantly;
- > Maintain the fund securely.

Petty Cash – Specific Audit Steps



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Audit steps for testing petty cash accounts may include:

- > Surprise petty cash audits, reviewing the account on hand to ensure that the petty cash fund matches the total expected and that any outlays have related receipts as support.
- > Analysis of the size of, and responsibility for, various petty cash funds in use.

Service Centers – Overview



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A service center is defined as a department, or functional unit within a school or department that performs specific technical or administrative services for a fee. Examples of service centers are cell sorting facilities, magnetic resonance imaging facilities, or animal care facilities.

The term “service center” is an all inclusive term to describe an operating unit within a school or department that provides goods or services for a fee based on a rate schedule, to recover no more than the cost of the goods or services and to break-even over time. “Recharge Centers” and “Cores” are types of Service Centers.

Governing regulations: OMB A-21, Section J-47, Specialized Service Facilities

- > The costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind tunnels, and reactors
- > The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:
 - (1) does not discriminate against federally supported activities of the institution, including usage by the institution for internal purposes, and
 - (2) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all F&A costs. Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period(s).
 - a. Where the costs incurred for a service are not material, they may be allocated as F&A costs.
 - b. Under some extraordinary circumstances, where it is in the best interest of the Federal Government and the institution to establish alternative costing arrangements, such arrangements may be worked out with the cognizant Federal agency.

Service Centers – Common Issues and Concerns



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Because of the unique structure and purpose of service centers, it is important to review compliance with Federal regulations and ensure that “recharged” costs are appropriate and the service centers are not being used as profit drivers. Issues to look for include:

- > History of Surpluses (revenues exceeding expenditures) without an accompanying rate adjustment.
- > Cost not following Cost Accounting Standards from OMB Circular A-21, for reasonableness, allocability, allowability, and consistent treatment.
- > Unrelated business income tax issues, when primary function of specialized services facilities (i.e. service centers) are not part of the core mission of the institution.
- > Fluctuations in payroll costs, which may indicate departments are parking expenditures or using service center funds as bridge funding while there are gaps in other sponsored projects.

Service Centers – Specific Audit Steps



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Audit steps for testing costs related to service centers may include:

- > Service center rates should be reviewed to validate that they are not being used as profit drivers and are adjusted on a routine basis to maintain break-even status.
- > Test a sample of recharged costs to determine if the costs are supportable and appropriately charged to the award.

Principal Investigators (PIs) are responsible for the activities, both financial and programmatic, of subawardees, and should actively manage the subaward relationship.

- > Costs charged and invoiced by subawardees should receive at least as much scrutiny as those charged through the institution.

To best manage these relationships, an institution should:

- > Establish a frequent communication protocol during subawardee performance.
- > Require approval of subawardee invoices by the PI or other key personnel.
- > Regularly (at least quarterly) review the subawardee's technical progress and financial expenditures.

Subawards – Common Issues and Concerns



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Subawards and payments to subrecipients receive a high level of sponsor oversight and audit scrutiny because award funds are being spent with a level of direct control removed.

- > Institutional oversight is often limited to PIs discussing technical progress, and subrecipient charges may not receive full review and/or scrutiny.

Common areas of concern for subrecipient charges include:

- > Salary charging
- > Equipment and supplies
- > Travel costs
- > Further subawards

When auditing costs and compliance related to subawards, auditors should:

- > Test a sample of subrecipient invoices for evidence of proper review and approval, and verify that costs charged are allowable and allocable to the award.
- > Compare the nature and amount of costs charged to the subrecipient agreement governing the subaward.
- > Review the indirect rate applied to the charges and validate that it is the rate agreed upon in the subaward and is appropriately applied to the costs charged.

Travel-related costs include expenses for meals, lodging, transportation, and related items. Many research projects will require some aspect of travel, both international and domestic, for activities such as conferences or fieldwork. Travel costs are often an area that is scrutinized by auditors and which may reveal instances of fraud or misuse of funds.

Travel costs are subject to several specific requirements, including:

- > Established per diem rates
- > Lowest commercial discount airfare
- > Fly America Act.

Travel – Common Issues and Concerns



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Because travel related expenses are incurred outside of an institution's standard operating environment (i.e., by an "unsupervised" employee or group of employees off-site), there are many potential concerns that arise. With respect to research travel costs, it is important to maintain appropriate documentation to support the business purpose of all travel expenses and provide adequate justification for charging the costs to a sponsored award.

Common issues related to travel costs may include:

- > Unsupportable or unrelated business purpose
- > Payment for an inappropriate person (e.g., traveling with a spouse)
- > Costs in excess of established norms
- > Traveling internationally, when only domestic travel was approved
- > Unallowable costs (e.g., alcohol with meals)

Travel – Specific Audit Steps



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Auditing steps related to travel may include:

- > Review submitted expense reimbursements or travel costs and determine if documentation contains sufficient support to justify the purpose of the trip.
- > Ensure that travel costs are appropriately budgeted in the award, and compare the trip's purpose to any specifics listed in the award.
- > Look for anomalies in documentation, such as charges for flights without related hotel stays, or receipts from cities other than where the travel occurred.

General Audit Tips

In addition to the specific audit techniques mentioned previously, there are some general points that should be kept top of mind when reviewing costs:

Oversight and Monitoring

- > Are costs charged to an award routinely reviewed (e.g., monthly or quarterly)?
- > Are reviews conducted by employees with an understanding of both the financial and programmatic aspects of the award?
- > Do reviews include (at least):
 - Appropriateness of costs charged
 - “Burn-rate” and project progress
- > Are reviews documented and maintained with other award records?

Documentation

- > Is there documentation to support the cost or activity? Examples of documentation include:
 - Purchase orders
 - Invoices
 - Receipts
 - Progress Reports
- > Does the documentation demonstrate the:
 - Reason for selecting vendor (especially if sole-sourced)
 - Total amount of charge
 - Meaningful justification for charge (business purpose)
 - Appropriate levels of review and/or approval

Summary

February 8, 2012

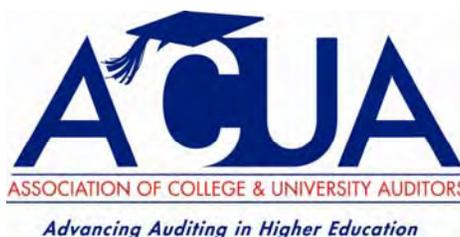
**Kathy Kapka, University of Texas at Tyler
“Suggestions for Implementing the IIA Standards”**

April 1-4, 2012

**ACUA Mid-Year Conference
Charlotte, NC**

April 11, 2012

**Frank Bossle, Johns Hopkins University
Raina Rose Tagle and Kimberly Ginn, Baker Tilly
“Conflicts and Effort and Exports, oh my! – Auditing for
Compliance in Research”**



Additional resources



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> ACUA

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

> Baker Tilly

- www.bakertilly.com/Higher-Education

> Council on Governmental Relations

- www.cogr.edu/

> National Council of University Research Administrators

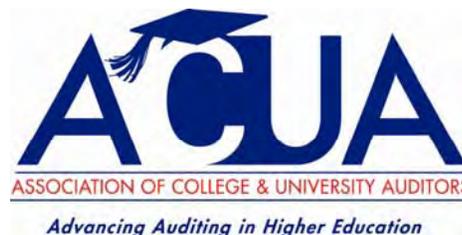
- www.ncura.edu

> Society of Research Administrators

- www.srainternational.org

> OMB Circulars

- www.whitehouse.gov/omb/circulars/



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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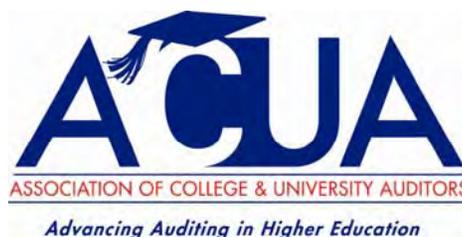
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