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## AUDITS: The Good, the Bad, and the Ugly

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# The Past Through Tomorrow

# How the Past May be Shaping Audits Today



By Julie Cole and Gil Tran

**G**overnment funding for exploration and research is not new. From the early explorers charting a path to the new world to expeditions to map America from sea to sea, government funding has been a constant to support discovery. However, the system of federal investment in research developed by the US federal government in the 1950's is unique. Sparked by the seminal publication, *Science, the Endless Frontier*, federal investment in research “for the public good” launched a global model for government funding. The growth of this federal investment has grown well beyond the vision of the original planners, and nations throughout the world have emulated the American model.

With such a significant federal investment it stands to reason that appropriate auditing for both work performance and financial management would also become a significant part of the federal funding landscape. Today's audit environment is a complex system of multiple approaches, sometimes resulting in serious consequences for universities:

- Fines and penalties,
- Required pay back of sponsored program funding,

- Reputational damage,
- Reduction in subsequent funding,
- Debarment and suspension (PI and Institution), and
- Escalating audits.

## The Past...

*“Until the late 1970s, financial audits of federal grant recipients were conducted on a grant-by-grant basis, an inefficient process that left gaps in audit coverage. The single audit concept was developed as a remedy, requiring an entity wide, comprehensive audit that incorporated a review of internal controls of the grant recipient.” (Tassin, et. al., 2019)*

However, the Single Audit has also been a subject of concern. The GAO Report GAO-17-159 provides a good summary of federal audit changes over the years and offers cautionary guidance on the evolution of perspectives on audits.

- Congressional concerns – Congress has become increasingly active in questioning use of federal funds, specifically calling for reviews based



potential fraud, abuse and waste, with questions about F&A (now Indirect) costs, apparent frivolous awards, and other fiscal concerns.

- Public concerns and perceptions – The public has also become sensitized to federal awards for research and sponsored programs, and increasingly asking how this investment is benefiting the nation, further discovery, and having meaningful impact. A former senator annually produced a listing of funded projects that, by their titles, might have seemed frivolous. However, a detailed review usually indicated a sound scientific and valuable principle.

Fight Club for Shrimp - \$707,000: Researchers at Duke University spent more than \$700,000 in money from the NSF and the Smithsonian's Tropical Research Institute to get 68 different Panamanian mantis shrimp to fight over an artificial burrow. Although this appears to be a low value project, the reality is that this project had significant value to the US military community, and to furthering better understanding of underwater dynamics.

- Administration concerns and priorities – Current and past presidents have reinforced the need for reduction of fraud, waste and abuse, while supporting specific funding priorities

- Concerns over the efficacy of the Single Audit – Questions continue concerning how well the Single Audit process really identifies and ensures corrections of potential audit issues. As a recent example, Moffitt Cancer Center and Research Institute self-disclosed \$19.5M in billing related to clinical trial research. The period for misbilling was 2014-2020. Single Audit reported no audit findings and low risk audit opinion.

Today, the audit scene is rapidly evolving. 2 CFR 200 emphasizes the responsibility of recipient institutions to more aggressively monitor and remediate potential financial audit issues, and to create and enforce internal controls to ensure fiscal compliance. The 2024 2 CFR 200 removed multiple prior approval requirements that, while streamlining grant management, also compels universities to increase their internal control systems.

### The Present...

Federal agencies have embraced formal processes for annually assessing both their internal compliance status and identifying specific types of costs and processes that they will audit for among recipients. For the oversight of grant programs, the Federal agencies have three levels of audit review with three different focus es and three different review approaches: (1) the federal awarding agency, (2) the agency's Office of Inspector General (IG) and (3) the General Accountability Office (GAO).

Federal awarding agency - Focus on federal project awards at specific institutions. Approach – review the institution's financial reports and single audit reports for monitoring. The Federal awarding agency also performs pre-award review on the potential awardee based on their own audit metrics. Agency review may lead to questioned costs and/or more restricted requirements on high-risk grantees or applicants.

Agency's Office Inspector General - Focus on a type of award or type of grantees. For example, the Department of Health and Human Services IG focuses its review of COVID-19 programs and spending in the last few years. Approach – in addition to using the single audit reports, the IGs often conducts separate audits at various grantees managing a particular type of programs (such as research programs or medicaid programs). Often, when the IGs find a non-compliance at a grantee they will expand the scope to see whether the problem is more widespread (i.e., non-compliance with the effort reporting requirement). The IGs also respond to whistle blowers under the False Claim Act for tips on fraud, waste and abuse on federal grant programs. The IGs may again expand the scope of their audits to other institution based on the whistle blower case.

GAO - Focus on higher risk programs and overall grant oversight by agencies. GAO is an audit arm of Congress and responds to requests by

Congress on specific areas of concerns. For example, in May 2023, GAO performed an audit and issued a report on "Grant Management – Observations on Challenges with Access, Use and Oversight" with recommendations to federal agencies for better management of grants. These recommendations may lead to more restrictions by the agencies to their grantees. Approach – GAO uses its own auditors to conduct the review and relies heavily on the single audit report results related to federal programs.

The audits by the Federal awarding and IGs can result in findings that require money paybacks by the grantees and in some severe cases, prison time for the violators. GAO reports usually result in recommendations for the agencies for specific actions in their grant processes and policies. Both the IGs and GAO reports and recommendations are reported to Congress. The recommendations and its implementation progress are tracked. Thus, if your institution receives a recommendation by an IG audit to address an issue related to internal controls on grant spending, that recommendation will be tracked and monitored until it is fully and satisfactorily implemented by your institution.

For a general idea of the areas of interest by the Federal agencies in grants, the grantees can first look the annual Compliance Supplement (a guide for the auditors performing single audits on the areas of interest by the Federal agencies) which has a separate section on the Research and Development – Part 5 of the Compliance Supplement. The agency Inspector General offices and the GAO would have annual audit plans that are submitted to Congress and are publicly available for review.

From the review of the latest OMB Compliance Supplement and the agencies' audit plans, we found these emerging audits trends for research projects:

- Indirect costs and cost transfers,
- equipment and real property,
- subrecipient monitoring and FFATA reporting,
- research security,
- foreign influence,
- performance audits (effectiveness of agency programs), and
- evaluation costs of the efficacy of funded projects to be included in proposals.

### The Future...

Emphasis on internal controls in 2 CFR 200 is a straightforward guideline for universities in fiscal oversight and compliance. However, the national concerns with integrity in research, undue foreign influence over funded projects, agency accountability, and multiple new required disclosures by both institutions and faculty outside of 2 CFR is challenging the traditional audit scene and university compliance response.

Agencies are also being increasingly evaluated for agency efficacy and productivity. An audit of NASA programs revealed the agency's need for more oversight of its awardees. In early 2024 NASA implemented its Routine Monitoring–Financial Transaction Testing Review program. The program requires institutions to provide a quarterly expenditure list for selected NASA awards. NASA also implemented a Routine Monitoring–Financial Transaction Testing Review program. The program requires institutions to provide a quarterly expenditure list for selected NASA awards.

Concern over the timely programmatic reporting is also sparking additional compliance concerns. As federal funding is dedicated "for the public good," there is increasing pressure on recipients to disclose research data to leverage additional discovery and solution-finding. Failure to report/disclose as required leads to significant penalties.

There is increased emphasis on subrecipient compliance performance. New NIH policies require foreign subrecipients to share lab notebooks and research data with the US Prime Awardee, but the process for ensuring this actually happens is still unclear and left to the individual institution



to monitor.

Many universities are considering how to link traditional financial compliance with other research compliance units to create a blended approach to an effective compliance oversight program. It is becoming increasingly important to proactively engage in the national discussion on research regulatory changes, and to implement strong communication networks both on campus and nationally to stay ahead of potential audit and non-compliance issues. Institutional models are emerging that effectively address potential compliance risk through annual risk assessments, metrics, training and connected infrastructure among all parties – pre/post award, research compliance such as IRB and IACUC, Export Controls, COI, and all related compliance areas. Universities are building internal networking through Enterprise Risk Management (ERM) and Internal Audit connectivity. This proactive approach strongly suggests that universities engage in continuous improvement of their compliance oversight process. It also suggests that by doing so, universities can better support faculty in their research engagements by providing the “safety net” they need to focus on their research with the assurance that the university is supporting the management of their compliance obligations. **N**

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# WORK SMART

## Document, Document, Document.

By Erin Bailey

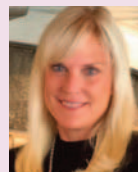


**A**s institutions strive to innovate and push the boundaries of knowledge through funded research, they must also adhere to stringent financial regulations. A cornerstone of this compliance is the ability to document all expenditures thoroughly to answer questions if there is an audit. Auditors require a clear trail of how expenditures were determined to be allowable costs, which includes a comprehensive understanding of the who, what, when, where, why, and how of every purchase.

- Who:** Identify the PI and research study for whom the purchase is made. This establishes accountability and ensures that expenditures are linked to project objectives.
- What:** Clearly state what is being purchased. Detailing the items helps auditors assess their relevance and necessity for the project.
- When:** Document the timing of the purchase. Was the expense during the project period or within a specified time? Was it processed during the last 30 days of the award? If yes, why?
- Where:** Document the where of the purchase. Does the institution have an established relationship with the vendor? Is there any conflict of interest between the PI and the vendor?
- Why:** Explain the rationale behind the expenditure. How does this purchase support the goals of the project? Providing a clear connection between the expense and the project outcomes reinforces its legitimacy.
- How:** Describe the procurement method. Was the purchase made through a service agreement, vendor contract, or was it an expense that required multiple quotes or prior approvals?

Having a well-documented trail simplifies the auditor's task and protects the institution from potential financial liabilities. An audit that uncovers inadequately documented expenditures can lead to disallowed costs, which may result in financial penalties, loss of funding, or reputational damage.

Moreover, a thorough documentation process enhances the institution's internal controls, ensuring that all financial activities are transparent and accountable. This not only fosters a culture of compliance but also instills confidence among funding agencies, institutional leadership, and the research community. **N**



**Erin Bailey, MS, CRA**, is the Chief Financial Officer for the University at Buffalo Clinical and Translational Science Institute with over 25 years of experience in research administration and financial compliance. She is a member of the NCURA Financial Research Administration traveling faculty and has previously held positions on the NCURA Board of Directors and the Financial Management Committee. Currently, she is a member of the Leadership Development and Nominating Committee.