

2011 BRINGING ADMINISTRATORS TOGETHER CONFERENCE

Sponsored Programs Compliance: IT'S NOT JUST VAPORWARE!

Wednesday, April 27, 2011

1:30 P.M. – 2:30 P.M.

UIC UNIVERSITY OF ILLINOIS
AT CHICAGO

Empowering Performance & Achievement through Teamwork

Workshop Presenters

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Learning Objectives

Understand how the recent federal compliance audits are changing the landscape of research administration at the department and central office level.

- FY09 and FY10 federal A133 findings
- Vulnerable departmental practices
- Inappropriate, inadequate or unacceptable practices

Agenda

- Background/Assumed Knowledge
 - Quiz questions
- A133 Key Audit Findings
- UIC Case Studies

Approach

- The regulation
- The Case
- The Defense
- Dept. response
- Avoidance

Topics

- Cost Sharing
- Effort reporting
- JV's
- Key Personnel

Institutional Responsibility

When we accept an award, we.....

- ...agree to adhere to all of the terms, conditions and guidelines.
- ...have a fiduciary responsibility to spend the money in a reasonable and responsible manner.
- ...have to demonstrate adherence to the key cost principles and all OMB circulars that pertain to federal awards.

Federal Landscape

- Monitoring from behind the scenes using business analytical tools
 - E.g. enrollment vs. spending trends
- Validation of system of record with other existing documentation
- Outsourcing desk reviews – more coverage
- Audit standards evolving – larger sample selections. Heavy reliance on source documentation

--- Banner screen shots won't cut it!!

Overview of the A133 Audit Process

- Part of the overall single audit (State, Financial and Federal)
- Federal Compliance Audit (aka A133 Audit)
 - Compliance with all federal circulars (A-21, A-110)
 - A-133 Compliance Supplement updated annually
 - Audit, findings, action plans to address findings

Statistics: Number of findings University-Wide

Federal Compliance Finding Categories	FY09	FY10
Material noncompliance and material weakness	6	6
Scope limitation and material weakness	1	1
Scope limitation	1	0
Noncompliance and material weakness	7	14
Noncompliance and significant deficiency	10	8
Noncompliance	2	0
Significant deficiency	3	2
TOTAL	30	31

Statistics: Number of findings and categories UIC

Federal Compliance Finding Categories	FY09	FY10
Material noncompliance and material weakness	2	3
Noncompliance and material weakness	4	8
Noncompliance and significant deficiency	0	2
Noncompliance	1	0
Significant deficiency	1	0
TOTAL	8	13

Summary of Key UIC findings

- Bi – weekly payroll finding (repeat) –inadequate documentation for payroll and fringe benefits
- Inadequate monitoring of subrecipients (repeat)
- Inadequate documentation to support cost share (new)

Summary of Key UIC Findings (continued)

- Inadequate documentation to support key personnel (new)
- Inadequate procedures for closing federal awards (repeat)
- Inadequate supporting documentation for cost transfers (new)
- Incomplete and inaccurate effort reports (new)

Quiz Question #1

Circular

- A) A-110
- B) A-133
- C) A-21

Reference

- A) Pre-award requirements
- B) Time & Effort Reporting
- C) \$500,000 of Federal expenditures or more per year

Aware of OMB Circular A-21 Cost Principles?

- Establishes principles for determining costs applicable to grants, contracts, and other agreements
- Direct Costs
- Selected Items of cost
 - Allowable/unallowable costs
 - Time and effort reporting

Aware of OMB Circular A-110 Administrative Standards?

- Pre-award requirements
- Post Award requirements
 - Financial management systems standards
 - Property Standards
 - Procurement standards
 - Reports & records
- After-the-Award requirements

Aware of OMB Circular A-133 Audit Requirements

- In general, A-133 requires a State government, local government, or non-profit organization (including Institutions of Higher Education) that expends \$500,000 or more per year under Federal grants, cooperative agreements, and/or procurement contracts to have an annual audit by a public accountant or a Federal, State, or local government audit organizations.

Quiz Question #2

Which sponsor changed it's policy statement within the last year?

- A. NIH
- B. NSF
- C. DOD
- D. None of the above

Quiz Question #2 Answer

Both the NIH & NSF reissued their policy statements within the last several months. The majority of changes simply incorporate clarification statements that have been issued over the last several years.

Quiz Question #3

Do administrative salaries on sponsored awards impact Compliance or the F&A rate?

Quiz Question #3 Answer

Both

- Administrative salaries directly charged to sponsored awards are unallowable unless justified and approved in the award document.
- These costs are included in the F&A rate calculation.

Case Study Approach

- Topic
- Related Regulations (The Rule)
- The Case
 - Question from the auditor
- Observations
- Department response
- The Defense
- How To Avoid

Regulations Applicable to Cost Sharing

OMB circular A-110 defines cost sharing as that portion of project or program costs not borne by the federal government. Section C.23 (a) lists the following criteria for cost sharing contributions:

- Are verifiable from the recipient's records
- Are not included as contributions for any other federally-assisted program project
- Are necessary and reasonable
- Are allowable under the applicable cost principals
- Are not paid under another award
- Tracked, monitored and reported

Cost Sharing Case Study

A proposal was submitted to a Federal Agency and awarded approximately \$6 million. The total budget included salary/fringe, equipment and 7 subcontracts. Cost sharing commitments were proposed for salary, equipment and all 7 of the subcontracts. The cost share commitment was an additional \$3 million.

Auditor's question:

- ***How was the cost sharing obligation met?***

The Defense

Observations Related to Cost Sharing Case Study

The following was noted by GCO:

- Salary cost share commitments were not recognized on effort reports
- Itemized cost share commitment not specified in the proposal
- No auditable trail for equipment specifically attributable to this project
- Subcontracts issued to external organizations did not mention required costs share commitments.
- Subrecipient invoices did not reflect cost share

The Department's Response

Effort

- Effort and salary cost share was certified based on the information shown in ERS.

Equipment

- The portion used for documented cost sharing is a partial payout of a larger invoice. It was not disclosed to the agency that only a portion of this charge would be used to meet the cost share commitment.

Subcontracts

- The cost share for the subawardees is in the form of an implied discount for services provided. The PI and the directors of each of these organizations negotiated the cost share contributions to the project as well as the overall subaward value. According to the PI the actual value of the subaward given to each of these organizations is very cost efficient given the scope of work required and the fact that each organization is willing to cost share is indicative of their support to the project.

How to Avoid

1. Identify total cost of project to determine portion to be borne by University.
2. Identify an appropriate funding source for cost sharing commitments.
3. Make sure all cost share requirements have been communicated and reflected in signed subcontract agreements subrecipient invoices.
4. Work with GCO for all salary related cost sharing to ensure correct dollar amount is reflected in ERS.
5. Document/track all transactions identified as cost shared charges in the original proposal.

Regulations Applicable to Effort Reporting

The basic principle of effort reporting is to attest that salary charged reasonably reflects effort committed and devoted to sponsored agreements. The Federal requirements for effort reporting are found in OMB Circular A-21, Section J.10. and other related guidance.

- Must account for 100% of individual's total professional effort which includes instruction, research service, patient care and administration.
- A responsible official with suitable means of verification that the work was performed could certify effort.

Effort Reporting Case Study

A sample of 25 effort reports were selected for review by the A-133 auditors.
2 effort reports were questioned.

- The employee was committed 100% on project Exxx in the proposal
- 100% of the effort was to be cost shared
- In ERS, 9% of the salary was recognized as cost share (based on cost share worksheets completed by depts.) and 91% as non-sponsored activities.
- This was submitted for certification.

Auditor's Question:

- ***Documentation is inconsistent. Please explain.***

Effort Reporting – The Defense

The Department's Response

Effort and cost share was reported based on the information shown in ERS.

How to Avoid

1. Identify and manage cost sharing obligations throughout the award.
2. Use job aid posted on GCO website to manage effort commitments.
3. When certifying effort, reconcile effort commitment with proposals, and other detailed records.

Regulations Applicable to Journal Entries

OMB Circular A-21, Section C.4.b

Any costs allocable to a particular sponsored agreement ... may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns ...

NIH Grants Policy Statement (12/03) Part II: Terms and Conditions...Subpart A: General...Cost Transfers...

Cost transfers to NIH grants by grantees... that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days ... The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge.

Grantees must maintain documentation of cost transfers, pursuant to 45CFR 74-53 or 92-42, and must make it available for audit or other review...

Journal Entries Case #1

Journal Entry #1

- The original charge for supplies was purchased with a P-Card and posted to Banner default account on October 7, 2010
- A journal entry was completed to reallocate this charge on January 14, 2011
- P-Card transaction reconciled on 10/19/10

Auditor Question:

Is a GC81 form required?

Journal Entries Case #2

Journal Entry #2

- The department processed an invoice voucher to pay for services provided by an external consultant from institutional funds
- The department then completed a journal entry to place the consultant charges on a sponsored project
- The original award documentation did not include a consultant agreement

Auditor Question/Request:

Provide additional documentation

Journal Entries Case #3

Journal Entry #3

- Department completes JV to remove supplies charged in error to grant Hxxxx and place on grant Exxxx
- Transaction completed within 90 days of the original transaction date
- FOATEXT comments were “to correct charges due to clerical error”

Auditor Question:

What’s wrong with this JV?

Journal Entries – The Defense

Department's Response

- [Journal Entry #1] - Originally it was reconciled on 10/19/09, therefore, when we processed the transfer we were still under the 90 day limit.
- [Journal Entry #2] – We reallocated funds to pay for the services provided by the external consultant. The PI has a verbal agreement with the consultant.
- [Journal Entry #3] – The JV was completed within 90 days and it simply was a clerical error.

Journal Entries – How to Avoid

Cost transfers to or from sponsored projects should be:

- Initiated promptly, after recognizing the error
- Supported by documentation explaining the transfer; and
 - Maintained by the departments for the same period of time described in the signed agreement

Unacceptable explanations for current/non-current cost transfers:

- Transfer expense to correct fund
- Transfer expense to remove draft
- Transfer expenses to correct rouge FOAPAL when debit and credit fund is different
- Transfer expenses per grant or contract agreement

Regulations Applicable to Key Personnel

- OMB Circular A-110, C.25.(c).(2)...recipients shall request prior approval for changes in key persons specified in the award document.
- According to the OMB Compliance Supplement, dated June 2010; before removing, replacing, or diverting any of the listed or specified personnel, the grantee must:
 - Notify the awarding agency
 - Submit justification and
 - Obtain the awarding agency's written approval.

Key Personnel Case Study

A PI listed one of his departmental colleagues as a or key personnel on a 4 year, federally sponsored project. In year 2, the PI informed his administrative staff that the Co-I would no longer continue his research on the project. The project continued without the effort from the Co-I and final reports were issued to the sponsoring agency . The Co-I was not listed in the final project which received favorable comments from the sponsor.

Key Personnel Case Study (continued)

During an audit, a sample of key personnel was tested in which auditors compared the original award documents with effort reports and final project reports. The department could not provide adequate documentation to support the individual's work on the project at the proposed level of participation. Additionally, the department could not provide documentation to the awarding agency approving the removal of key personnel from the project.

Auditor question #1

Provide support that this Co-I worked on the grant.

Question #2

What was the auditor's next question?

Key Personnel – The Defense

Department's Response

The final report was submitted without mention of the Co-I and was approved favorably by the agency. Additionally, the federal agency does not have a policy specifically requiring notification of changes in effort for key personnel projects.

Key Personnel – How to Avoid

1. Notify all federal agencies when there is a change to committed levels of participation for individuals listed as key personnel.
2. Compare and monitor efforts committed on award documents for key personnel vs. annual effort reports.
3. Communicate with other departments regarding changes in key personnel and their efforts.

What Takes Precedence?

- OMB Circular
- Agency Guidelines
- NIH or NSF policy statements
- Correspondence from the program officer
- Terms and Conditions of the award
- CFAR
- Auditor guidelines

The End