



Washington University in St. Louis

Engineering

Engineering
ACROSS DISCIPLINES. ACROSS THE WORLD.™

Best Practices Series

Auditing Considerations

Presented by: Natalie Goodwin-Frank and Glen Reitz

Adapted from an NCURA presentation by Glenda Bullock (WUSM) and Jennifer Evans (Purdue)

Background: OMB Circular A-21 Cost Principles for Educational Institutions

- Addresses what costs should be applied to grants, contracts, and other agreements between government & educational institutions
- Asserts that the government should bear its “fair share” of total costs, according to generally accepted accounting principles (GAAP)
- Acts as a guide



Background: OMB Circular A-21 DEFINES Cost Principles for Educational Institutions

- Factors affecting the charging of costs / **4 Criteria**
 - Reasonable
 - Allocable
 - Consistent
 - Allowable
- Direct and indirect (F&A) costs
- “Selected items of cost” / special circumstances



OMB Circular A-21 Criteria Cost Principles for Educational Institutions

- Charges are **reasonable** if they
 - Pass the prudent person test
 - Are necessary to the project
 - Follow all applicable laws and regulations
 - Adhere to sponsor's terms and is consistent with University practices

OMB Circular A-21 Criteria Cost Principles for Educational Institutions

- Charges are **allocable** if they
 - Are incurred solely to advance the work
 - Benefit both the project and other work in proportions that can be reasonably approximated OR
 - Are necessary to the overall operation of the institution and are assignable in part to sponsored projects
- Any costs allocable to a project MAY NOT be shifted to other sponsored agreements in order to meet deficiencies caused by overruns, to avoid restrictions on other agreements, or for convenience.



OMB Circular A-21 Criteria Cost Principles for Educational Institutions

- Charges are **consistent** if they are
 - Routinely estimated, proposed, charged, and reported in a similar manner
- “Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.”



OMB Circular A-21 Criteria Cost Principles for Educational Institutions

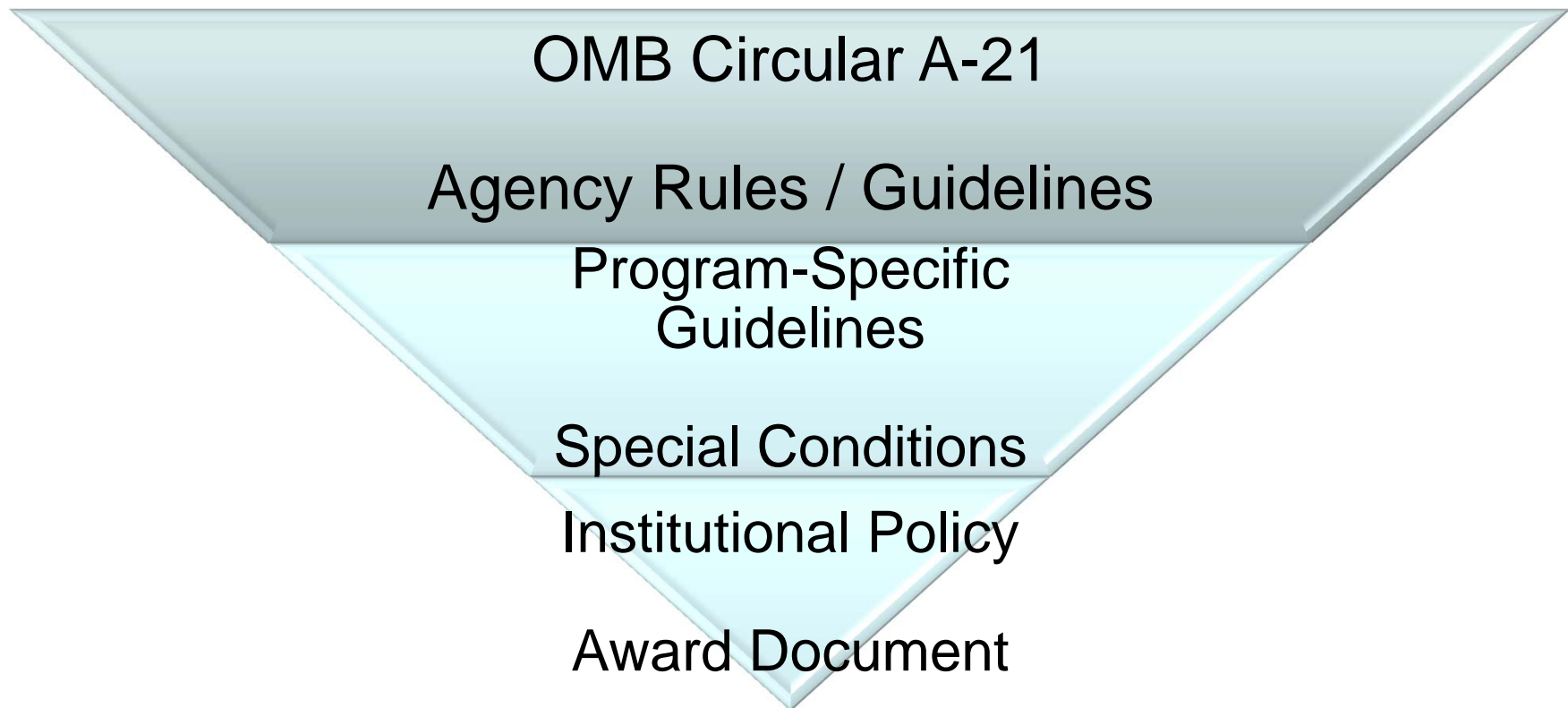
- Charges are **allowable** if they are
 - Reasonable, allocable, and treated consistently
- Review terms & conditions as a sponsor may restrict charges (e.g., foreign travel, books) that are generally allowable on other grants.
- **Remember:** If a cost is not allowable on a sponsored fund, then it is not an allowable cost to cost share.



What do our sponsors say?

- “The fact that a proposed cost is awarded as requested by an applicant does not indicate a determination of allowability.” – *NIH Grants Policy Statement*
- “Grantees should ensure that costs claimed under NSF grants are necessary, reasonable, allocable, and allowable under the applicable cost principles, NSF policy, and/or the program solicitation.” – *NSF Grant Proposal Guide*

Direct & Indirect Costs: Where to get answers?



OMB Circular A-21: Direct Costs Defined

- “Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”
- “Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs.”



OMB Circular A-21: Direct Cost Examples

- Salaries of principal investigators (PIs), postdoctoral associates, technicians, students, etc.
- Fringe benefits of PIs, postdocs, technicians, students, etc.
- Supplies and materials
- Travel
- Equipment

OMB Circular A-21: Indirect Costs Defined

- “costs...that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.”

OMB Circular A-21: Indirect Cost Examples

- Salaries of departmental staff
- Building costs (utilities, maintenance)
- Proposal preparation costs
- Office supplies (postage, local phone service)



OMB Circular A-21: Special Circumstances Projects that...

- Are large and complex programs (e.g., Center grants that require management of a team of investigators from a number of institutions).
- Require extensive data accumulation (e.g., clinical trials)
- Include conferences and seminars (e.g, travel and meeting arrangements for a large number of participants)
- Are geographically inaccessible from dept. admin. services (e.g., remote field sites)
- Include project-specific database management (e.g., multiple project-related investigator coordination & communication)

If special circumstances exist, an indirect/F&A cost may be budgeted as a direct cost provided that the cost is...

- Allowable
- Specifically identified with the proposed project
- Seen as advancing the proposed project
- Attributed to the proposed project with relative ease and a high degree of accuracy



Costs

Unallowable

Alcohol

First class travel

Entertainment, etc.

Normally Indirect

Admin & clerical compensation

Office supplies

Postage

Local telephone costs

Memberships

Normally Direct

Salaries and benefits for faculty, research staff, grad students

Lab Supplies / Chemicals

Travel

Scientific equipment

Long distance phone charges

Recharge center costs



What do I need to do?

Document

Document

Document

Why the need for documentation?

In a word: AUDITS

Types of Audits

- Pre-Award, financial statements review
- Program specific, special review (cost transfers, summer salary)
- Business system review (accounting, procurement, compliance, etc.)

Sources of Audits

- Sponsor
- OIG for Federal Agency
- Independent Audit Firm
- Internal Audit

Institutional Participants of Audits

- Central offices
- Departmental offices
- PIs
- Administrators
- General Counsel



Why the need for documentation?

- Documentation is expected on ALL transactions, especially those considered under “special circumstances”
- Auditors will take a “sample size” of your documents to review
- Documentation should be easy to...
 - **Retrieve** = easily accessible, available, and filed
 - **Explain** = reasons how the expense benefited the project
 - **Understand** = enough information so that if you leave the university, there is sufficient detail; completely speaks for itself

Best Practice: Attach a form (example below) to backup documentation for special/unusual circumstances

Expense Documentation Form	SAMPLE
Date:	7/1/2013
Fund Number:	1310-12235
Principal Investigator:	A. Einstein
Product/Service:	100 white binders w/ dividers
Benefit to project:	Binders necessary to complete didactic courses for trainees as outlined in the scope of work
Allocability Method:	Binders will only be used for this fund. 100% allocable to this project.
Special Circumstances:	This is an exceptional circumstance as research grants do not normally require courses to be taught and workshop/handout materials to be dispensed to trainees. See page 4 of RFA-12-046

Best Practices

- **Timesheets***

- Reported time should correspond with payroll period
 - Timesheets should be submitted during biweekly reporting period
 - Prior timesheets are discouraged, but accepted and should clearly be noted
 - Every effort should be made to turn in timesheets ON TIME
- Form should be completed in entirety
- Signed by employee
- Authorized/approved by supervisor/designee
- Accuracy is very important, please double check daily/total hours addition (Auditors will check your math!)
- Retain electronic and/or hard copy

*** Written authorization by PI's designee must be on file**

Best Practices

- **Journals**

- Thorough justification is needed to explain why charges are being moved from one fund/account to another
 - What was the mistake?
 - How was the mistake discovered?
 - Why did the mistake happen? Was the mistake corrected for future transactions?
 - When did the mistake occur? Auditors require date of discovery for errors
- Authorized/approved by PI/designee*
- Electronic and/or hard copies of the following should be on file:
 - Completed journal
 - Authorization by PI/designee
 - Ledger entry showing the original account/fund charged

*** Written authorization by PI's designee must be on file**

Best Practices

- **Payroll Cost Transfers (PCTs) – [See Template Form](#)**
 - Thorough justification is needed to explain why charges are being moved from one fund/account to another
 - What was the mistake?
 - How was the mistake discovered?
 - Why did the mistake happen? Was the mistake corrected for future transactions?
 - When did the mistake occur? Auditors require date of discovery for errors
 - Authorized/approved by PI/designee*
 - Authorized/approved by Dean's Office
 - Electronic and/or hard copies of the following should be on file:
 - Completed PCT – **Include preparer's employee ID**
 - Authorization by PI/designee*
 - Authorization by Dean's Office
 - Ledger entry showing the original account/fund charged

*** Written authorization by PI's designee must be on file**

Best Practices

- **Allocation Requests – [See Request Form](#)**
 - Preferred method for distributing funds to other WUSTL Co-PIs/collaborators
 - Why? The indirect cost recovery follows the direct costs (e.g., if a WUSM PI suggests to source a SEAS PI on their fund, then approval from the Associate Dean for Finance & Administration is required).
 - Be sure to check your calculations and ensure that funds are available in the correct categories to move to the other account.
 - Please provide a thorough description
 - **Authorized/approved by PI, Chair, & Dean's Office**
 - Retain electronic and/or hard copy
- **Cost Sharing Request – See section on the Allocation Request Form**
 - Ensure that the debit account is set up
 - **Authorized/approved by PI, Chair, & Dean's Office**
 - Retain electronic and/or hard copy

Best Practices

- **Travel Reports (TRs)**

- Travel should follow the effort of the traveler (e.g., if a postdoc travels, he/she is usually sourced to the same project)
- Clear and concise justification (how does it specifically support the project?)
- Per diem back-up documentation (e.g., print-screen of per diem rates) or actual receipts are required
- Account/Fund number assigned by PI
- Authorized/approved by PI
- Retain electronic and/or hard copy

- **Exception Approvals**

- Require approval by Associate Dean for Finance & Administration
- Retain electronic and/or hard copy

Best Practices

- **Check Requests (CRs)**

- Signed request form from PI/designee (electronic form is acceptable)
- Fund should be specified by PI/designee
 - Please do not assume. It is the PI/designee's responsibility to indicate the appropriate fund.
- Clear and concise justification (how does it specifically support the project?)
 - If unusual, please seek guidance from the Dean's office.
- If reimbursing the PI, the Chair's signature is required.
- If reimbursing the Chair, the Dean's signature is required.
- If a meal or an entertainment expense for less than 15 people, all participants should be listed by name and title. If greater than 15 people, provide the number attending (estimate if no accurate count available) and list participants' by role (e.g., faculty, postdocs, graduate students, undergraduate students, etc.)

Best Practices

- **Effort Reporting/Personnel Activity Report (PAR)**

PAYROLL

- Authorized/approved by PI
 - All changes to personnel must be in writing (e.g. email, form, or PARS reportable payroll authorization report from WebFocus).

ePARS

- See <http://epars.wustl.edu>
- Faculty and staff should certify their ePAR within 30 days of the ePAR release date.
- Personnel should be aware of their own payroll sourcing (e.g., where are they getting paid from?)
 - Direct them to the ePARS system to review monthly payroll sourcing
 - Discrepancies should be brought to the DA's and PI's attention as soon as possible for clarification or correction.
- Roles and Responsibilities
 - Faculty/staff member (certifier) – review, adjust (as necessary) and certify his/her effort for the applicable periods via the ePARS system
 - DA (effort coordinator) – assist faculty and staff in the effort reporting process. Manage the overall certification process.
- ePARS electronic documents are LEGAL documents certifying that a person worked on a particular project for that period of time.

Best Practices

- The PO File*
 - Signed request form from PI/designee (electronic form is acceptable)
 - Fund should be specified by PI/designee
 - Please do not assume. It is the PI/designee's responsibility to indicate the appropriate fund.
 - Completed Sponsored Projects Accounting (SPA) forms when needed
 - [Administrative Cost Exception \(ACE\) Form](#)
 - Equipment Screening Certificate
(>\$25K = [OMB A-110](#) ; >\$100K = [FDP terms](#))
 - Completed Purchasing forms when needed
 - [Sole Source/Supplier Justification](#)
 - Expense documentation form for special circumstances (see example)
 - Proof of delivery
 - Signed and dated copy of the packing slip

*** Written authorization by PI's designee must be on file**

PO Checklist

- Authorize PO by PI
- If needed:
 - ACE form
 - Equipment screening forms
 - Sole source

Consequences: Non-compliance leads to...

- Disallowed costs
- Reduced funding
- Award termination
- Additional oversight/compliance requirements
- Sanctions
- Suspension
- Debarment
- Criminal penalties



Unacceptable Practices

- Purchasing items simply to spend down an unobligated balance
- Rotating charges among projects
- Assigning charges to avoid the loss of carryover balances
- Assigning charges before the cost is incurred
- Charging an expense to a fund when the expense clearly has supported other activities
- Transferring an overdraft from one sponsored project to another w/o sponsor approval

Remember...

- It is the PI's responsibility to **justify** the expense
 - *Do the costs clearly benefit the project(s) being charged?*
- It is the PI's responsibility to **approve** the expense
- **Document, document, document**
 - *Retrievable, Explainable, Understandable*
 - *Don't expect SPA to "remember last month's justification..."*



Thank you for your attention...

Questions or comments?