AUDITS OF SPONSORED PROJECTS

Background

Audits are conducted on sponsored projects to ensure compliance with:

- Federal laws and regulations
- Sponsor requirements
- Award terms and conditions
- Internal policies

In the audit report, an auditor will issue **findings** for instances of noncompliance, which requires the award recipient to develop a corrective action plan to address deficiencies. Auditors may also identify **questioned costs**, which is a cost charged to an award in which the auditor believes violates the award terms and conditions and which the recipient should repay the sponsor. The sponsor, or pass-through entity, is responsible for audit resolution. Under University policy, the PI and their respective department are responsible for any fines, penalties, and disallowed costs associated with their awards.

University policies related to sponsored projects are found here on the Finance Policies page.

Types of Audits

The University may be audited or monitored through the following:

- Internal Audit
- Sponsor Audits, Desk Reviews, or Site Visits
- Office of Inspector General (OIG)
- Annual Single Audit

Internal Audit is an office within the CU System Office that conducts audits within the University and may review all aspects of the award lifecycle. Internal Audit may examine:

- Compliance with University policies
- University activities and procedures
- Award management

Internal audit has recently audited the University's RPPR routing procedures and compliance with federal cost transfer requirements. In the next few months, Internal Audit will review the University's adherence to time and effort reporting requirements.

Sponsors may conduct **desk reviews** or **site visits** to ensure compliance with sponsor requirements and internal policies. During a desk review, sponsors may either request specific information or request the completion of a questionnaire or checklist. For example, a desk review may request supporting documentation regarding a specific cost or may request specific information regarding University policies or procedures. Sponsors may also conduct an audit on an award.

Each federal government department and independent agency has an **Office of Inspector General** (OIG). Congress created the OIGs to detect and identify fraud, waste, and abuse of federal funds. OIGs are authorized to conduct audits on grant recipients to evaluate award compliance and fiscal management.

Under federal law, any entity which expends $750,000 in federal funds during the entity's fiscal year must be audited by an external auditor. This audit report is known as the **Single Audit** or 2 CFR 200 (Uniform Guidance) Audit. The Single Audit examines:

- The entity's financial statements

- Compliance with award terms and conditions
- Internal policies and procedures

What should I do if a sponsor requests information or announces an audit?
You should contact your OGC Post Award administrator as soon as possible to alert OGC of a sponsor review or audit. OGC and the Compliance Office will work with you to prepare for the review. Please, never ignore a sponsor's inquiry.

Where can I find a copy of the University's previous audits?
The University's previous Single Audits are found on the A to Z Resources on the OGC website under "State of Colorado Statewide Single Audit."

Subrecipient Monitoring

2 CFR 200 (Uniform Guidance) requires pass-through entities to verify each subrecipient has complied with the Single Audit requirements and to issue management decisions related to any audit findings for a subaward. The Compliance Office is responsible for verifying each of the University's subrecipients has complied with the audit requirements. The Compliance Office will directly work with a department during the audit resolution process if there are any audit findings or questioned costs associated with a subaward.

Importance of Audits

Sponsors may use the results of previous audits in the award decision process, which may result in the loss of funding or **specific conditions** being applied to awards. Specific conditions increase the administrative burden during the post award phase.

Audits also can serve as valuable learning opportunities to identify issues auditors are currently concerned about, to learn from the mistakes made by other entities, and to prepare for future sponsor reviews.

Additionally,

Recent Federal Audit Issues

Non-compliance with the Fly America Act

The Fly America Act generally requires the purchase of international airline tickets from US flag-carriers. When purchasing airlines tickets, PIs and administrative units should use Concur Travel to ensure compliance with the Fly America Act. Failure to comply can result in a cost disallowance for the entire ticket.

Recent audit findings include:

- The University of Texas – Dallas did not comply with the Fly America Act and auditors questioned $1,338 in travel costs.
- The University of California – San Francisco failed to comply with the Fly America Act and a auditors questioned $533 in airline charges and $319 for upgraded seat charges.

A useful job aid for the Fly America Act can be found here.

Failure to Acknowledge Federal Funding

Federal research awards generally require an acknowledgement of federal funding when a recipient issues press releases, publications, or other documents describing projects funded by the federal government. The National Institutes of Health (NIH) requirements are found in the annual Notice of Legislative Mandates (see item number 6) and NSF's requirements are found in the Proposal & Award Policies & Procedures Guide (PAPPG). Failure to comply with this requirement can result in a cost disallowance for any costs associated with the publication.

Recent audit findings include:

- The University of California – Merced had more than $6,000 in publishing costs questioned because of the failure of multiple PIs to properly acknowledge NSF funding.
- The University of Idaho had more than $5,000 in publication costs of a research article questioned because the PI had identified three funding sources in the publication, but the University charged the entire cost to one award.
- The University of Texas – Dallas had $4,939 in travel costs questioned related to a PI presenting at a conference. The PI had acknowledged three funding sources in their presentation; however, the University charged 100% of the travel costs to just one award.

Inadequate Subrecipient Monitoring

Pass-through entities are required to ensure subrecipients are in compliance with award terms and conditions and 2 CFR 200.332 requires pass-through entities to adequately monitor subrecipients and document monitoring activities. PIs and administrative units may use the Subrecipient Monitoring Record to document monitoring activities. Failure to comply with requirements may result in the sponsor disallowing costs associated with the subaward, which requires the pass-through entity, not the subrecipient, to repay those costs.

One recent audit questioned more than $37,700 because the University of Wyoming failed to document monitoring activities of a subrecipient.

Equipment and Supply Purchases Near the End of the Award

Auditors and sponsors scrutinize equipment and large supply purchases near the end of an award to verify proper allocation of costs and to prevent award recipients from spending remaining funds on items not associated with the funded project. Auditors will examine the date of a purchase and compare the purchase date to the number of days remaining on the award to ensure the project benefits from the purchase. PIs and administrative units should verify any equipment or large supply purchases near the end of the award truly benefits the project and also allocate some of the costs to a department speedtype or other project. Failure to comply with this requirement can result in the disallowed costs for the equipment or supply purchases.

Nearly all of the recent NSF OIG audits included findings for equipment or supply purchases near the end of the award. For example, the University of South Carolina had more $93,700 in questioned costs. The table below is from the audit report and demonstrates that auditors closely review the number of days remaining on the award to determine if the costs are appropriate.

Description	Award Number	Questioned Invoice	Questioned F&A	Questioned Total	Days Remaining in Award Period	UofSC Agreed to Reimburse
Tube Assemblies	[redacted]	$ 13,680	$ --	$ 13,680	(46)	$ 13,680
Tube Assemblies	[redacted]	13,654	--	13,654	(11)	13,654
Apple Computer	[redacted]	4,616	2,146	6,762	44	6,762
Probes	[redacted]	4,484	1,480	5,964	--	5,964
Apple Computer	[redacted]	3,390	1,576	4,966	54	4,966
Cisco System	[redacted]	3,376	1,519	4,895	(6)	4,895
Tablet and Phone	[redacted]	3,186	1,434	4,620	43	4,620
Digestion Bombs	[redacted]	2,945	1,326	4,271	7	4,271
Apple Computer	[redacted]	2,722	1,225	3,947	27	3,947
Apple Computer	[redacted]	2,654	1,194	3,848	28	3,848
Drone and Sensor	[redacted]	2,515	1,170	3,685	(165)	3,685
Lab Supplies	[redacted]	2,420	799	3,219	(9)	3,219
Tablet	[redacted]	2,362	1,063	3,425	9	3,425
Apparatus	[redacted]	2,331	1,049	3,380	(26)	3,380
Gaming Laptop, Monitor and Support	[redacted]	2,085	938	3,023	2	3,023
Apple Laptop	[redacted]	1,785	803	2,588	29	2,588
Access Probes	[redacted]	1,528	504	2,032	--	2,032
Lab Supplies	[redacted]	1,099	494	1,593	--	1,593
Lab Supplies	[redacted]	1,026	338	1,364	(9)	1,364
User Licenses	[redacted]	1,018	474	1,492	64	1,492
Lab Supplies	[redacted]	1,000	330	1,330	(9)	1,330
		$ 73,876	**$ 19,862**	**$ 93,738**		**$ 93,738**

Source: Auditor analysis of questioned transactions

<u>Non-Compliance With University Policies</u>

When managing sponsored awards, recipients must comply with both the sponsor requirements and with institutional policies. When there is a conflict between the sponsor's requirements and University policy, PIs and administrative units must adhere to the most restrictive policy. To ensure proper compliance, PIs and administrative units should carefully review all University policies governing sponsored projects along with the PSC's Travel and Procurement policies. Failure to comply with University policies may result in disallowed costs, the termination of the award, or having a sponsor designate the University as a "high-risk" recipient, which results in additional administrative burden.

Recent audit findings include:

- The University of Idaho failed to comply with internal policies regarding time and effort certification and auditors questioned $2,100 of salaries charged to an award
- The University of Texas – Dallas had more than $30,000 in travel costs questioned because University PIs and personnel did not follow internal travel policies and procedures
- Tennessee State University failed to follow internal policies regarding effort certification and auditors questioned $121,797 in salary charges

- Clemson University failed to follow internal travel policies, equipment and procurement policies, subaward monitoring policies, effort reporting requirements, and budgeting practices. As a result, auditors questioned more than $45,000 in associated costs.

Participant Support Costs

Participant support costs are generally provided on training and fellowship awards and may only be used to support non-employees. Additionally, participant support costs cannot be rebudgeted without sponsor prior approval. Auditor frequently find universities misclassifying participant support costs, which can result in disallowed costs.

Recent audit findings include:

- The University of California – Merced had multiple findings related to unallowable participant support costs, which includes:
  - $860 for expenses incurred to purchases t-shirts provided as gifts to participants which were not included in the approved budget nor appeared necessary for the project
  - $94 in meal costs for University faculty and staff
  - $394 for a PI mileage and meal costs to attend a NSF conference, which are unallowable because the University misclassified these costs as participant support costs
- The University of California – San Francisco had more than $18,000 questioned because the University misclassified participant support costs for employee-related travel.

NSF RPPRs and Travel-Related Costs

The National Science Foundation (NSF) requires all travel to be disclosed on the annual RPPR. NSF auditors will review the RPPR and question any travel-related cost charged to NSF that was not appropriately disclosed on the RPPR. Please note, NIH does not require this level of documentation for NIH RPPRs.

Recent audit findings include:

- North Carolina Central University had $4,108 in questioned costs for international travel charged to a NSF award that was not identified in the annual RPPR
- John Hopkins University had $2,737 in questioned costs for travel and associated costs for attendance at a conference because there was no mention of international travel in the RPPR.

Other Recent Compliance Concerns

Time and Effort Certification

Compliance with the University's Time and Efforting Reporting on Sponsored Projects policy is required for all employees paid in full or in part with federal funds. There are two concerns:

- Accurate ePERs
- Timely certification

Employees must review the ePER to ensure that it is an accurate reflection of time and effort worked on each federal award. If an ePER is not accurate, then a new ePER must be issued.

Employees must also certify their ePERs within 120 days of the ePER creation. There are a number of outstanding ePERs for former employees who have left the University. Under University policy, PIs are authorized to certify ePERs of their employees that have left the University.

Computers

Sponsors and auditors will closely scrutinize purchases of computing devices on awards. Under the federal cost principles, computing devices must be "essential" for the project. The following questions should be answered before charging computing equipment to a federal award:

- How is the computer essential to fulfill the project's scope of work?
- How does the computer go beyond normal use in day-to-day operations of the laboratory?
- Does the department normally provide computing devices to employees? If so, how does the computer differ from similar items provided by the department that are provided as indirect (F&A) costs?
- What is the allocation method used to charge the computer to the sponsor(s)

Recruitment of Employees

Two issues concerning employee recruitment have been raised in recent years:

- Travel costs for prospective employees
- Relocation costs for new hires

In some instances, the University may be allowed to charge recruitment costs for prospective employees. First, it is important to understand your department's policy and previous practices. If your department has not previously charged recruitment-related costs to a University speedtype, then it will be extremely difficult to justify those costs for a federal award. Be sure to verify existing practices with HR before charging these costs.

Costs associated with relocating a new employee may be an allowable charge to certain awards, depending on the sponsor. To consider the allowability of these charges, however, the new employee's hiring letter **MUST** include language that indicates the University will pay for relocation charges. If the hiring letter does not include this language, then the costs are not allowable to sponsor projects. Additionally, before charging relocation costs, it is important to review your department's existing policy. If your department has not previously charged relocation costs to a University speedtype, then it will be extremely difficult to justify these costs to a sponsor.

Property Inventory

Under University policy, a physical inventory of capital equipment purchased with federal funds must be completed at least once every two years. The Finance Office distributes inventory reports to each department and departments are responsible for completing the inventory. Timely and accurate completion of the physical inventory reports is critical.

Gift Cards for Study Subjects

Many departments purchase gift cards to compensate individuals enrolled in clinical trials and studies. Before purchasing gift cards, departments must complete and submit the Gift Card Authorization Request form. Departments must also ensure proper internal controls to protect gift card assets.

Departments must also ensure that an appropriate number of gift cards are purchased. Departments are responsible for costs associated with any unused gift cards. If a department is using electronic gift cards, then these should be purchased after an individual has been enrolled in a study.

Additional information about gift cards can be found on the Finance Office Gift Card page.

Cost Transfers: PETs and JEs

Internal Audit recently completed a review of the University's cost transfer policies and procedures. Auditors found that the University did not always provide adequate documentation and justification for payroll expense transfers (PETs) and journal entries (JEs). Departments should carefully review the University's Cost Transfers on Sponsored Projects policy, which was updated in 2021, and properly use the PET or JE checklist when submitting cost transfer requests.