Financial Compliance Overview and Audits

Adam Herr, Senior University Auditor

Pat Sperry, Associate Director, Research Administration

GEORGE MASON UNIVERSITY

1

What is Financial Compliance?

- By accepting a grant, a recipient agrees to
  - comply with applicable laws and regulations, sponsor specific requirements, and special terms and conditions described in the award document, and
  - prudently manage all expenditures and actions affecting the award

- Financial Compliance means meeting all financial obligations associated with an award.

- It is an ongoing, organized effort on the part of researchers and research administration staff.

GEORGE MASON UNIVERSITY

2

Financial Compliance Resources

Uniform Guidance

- In December 2014, the Office of Management and Budget (OMB) implemented the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. This document synthesizes and supersedes guidance from earlier OMB circulars. http://osp.gmu.edu/home/new-omb-uniform-guidance/

Agency-Specific/Sponsor-Specific Grant Regulations and Policies

National Science Foundation (NSF)
  - *NSF Proposal and Award Policies and Procedures - 2020* https://www.nsf.gov/publications/pub_summ.jsp?ods_key=nsf20001&org=NSF
  - While this version of the PAPPG becomes effective on June 1, 2020, in the interim, the guidelines contained in the current PAPPG (NSF 19-1) continue to apply.

GEORGE MASON UNIVERSITY

3

Financial Compliance Resources

Agency-Specific/Sponsor-Specific Grant Regulations and Policies (continued)

- **National Institutes of Health (NIH)**
  NIH Grants Policy Statement - October 2019
  - https://grants.nih.gov/policy/index.htm#gps
  - https://grants.nih.gov/grants/policy/nihgps/nihgps.pdf

- **Department of Justice (DOJ)**
  DOJ Grants Financial Guide, December 2017
  - https://www.ojp.gov/funding/implement/overview
  - https://ojp.gov/financialguide/doj/pdfs/DOJ_FinancialGuide.pdf

GEORGE MASON UNIVERSITY

4

Who Is Responsible for Financial Compliance?

Recipient Institutions

- Recipient Institutions are responsible for developing a set of uniform operating principles and guidelines that assures compliance with OMB Uniform Guidance. They are responsible for disseminating this information to faculty and staff and for overseeing implementation of these principles and guidelines.

Principle Investigators (PI)

- PIs have ultimate responsibility for budgetary decisions related to grants and contracts and for ensuring the accurate allocation and assignment of costs to a specific grant or contract.

College, School and Institute Administrators

- Colleges, Schools and Institutes are responsible for implementing and monitoring policies and procedures, and for providing the support necessary to ensure project goals can be accomplished.

5   (Cont'd)

Who Is Responsible for Financial Compliance? (Cont'd)

Fiscal Services

- Fiscal Services is responsible for establishing university fiscal policies that are consistent with OMB Uniform Guidance.

Office of Sponsored Programs (OSP)

- OSP has financial compliance responsibilities throughout the award life cycle, beginning at the Proposal Development phase and continuing beyond closeout.
- These include providing administrative guidance and support to the university community in sponsored programs efforts and either approving or reviewing on a post-audit basis expenses charged to federally awards.

Refer to Mason Policies and Procedures

http://osp.gmu.edu/policies/

6

Where to Begin?

Read the award documents!

- Start and End Dates
- Approved Budget
- Restrictions on Use of Funds?
  - Re-Budgeting
  - Pre-Approval
  - No Cost Extensions
- Reporting Requirements
- Training Requirements

7

Direct Charging Expenses to Sponsored Funds

For expenses to be charged directly to Federal awards, they must be:

- Allowable
  - The cost conforms to the provisions of Uniform Guidance and the terms and conditions of the specific award AND is necessary for the performance of the Federal award
- Allocable
  - The cost can be associated with a sponsored project with a high degree of accuracy
- Reasonable
  - The cost reflects what a "prudent person" would pay in like circumstances
- Consistently Treated
  - The cost is treated across the University in the same or like circumstances

8

Expenses Generally Treated as Indirect Costs

Indirect Costs (also referred to as Facilities and Administrative Costs/F&A) are
- Costs that are incurred for a common or joint purpose
- Cannot be readily and specifically identified with a sponsored project, an instructional activity, or any other institutional activity

Expenses Generally Treated as Indirect Costs

In order to charge as a direct cost, must demonstrate that **all three** of the following criteria apply:
- Project charged has characteristics that make it one of "different purpose and circumstance"
- Cost can be specifically identified with the project with a high degree of accuracy
- Cost is identified in the budget and approved by the sponsor

Expenses Generally Treated as Indirect Costs

Examples include:
- Classified Staff Salary
- Advertising and Public Relations
- Books, Journals, Periodicals
- Communication Expenses (Cell Phones, Internet)
- Copier Charges and Copy Cards
- Dues and Memberships in Professional Organizations (considered professional development expense, not readily/ specifically identified with any one project)
- Office Supplies
- Postage
- Subscriptions

Pre-approval vs Post Audit Review

OSP reviews/approves the following direct expenditures prior to being charged to an award
- Reallocation FCFs
- Pooled Position Requests
- Leave payouts
- Journal Vouchers greater than $200 **on Federally sponsored projects (20xxxx only)**
- Food and Beverage Payments
- Petty Cash Requests
- Telecom Requests
- Purchase Orders greater than $25,000 (eVA)
- Scholarship/Fellowship Approvals
- Copy Card requests on sponsored funds
- P-card applications on sponsored funds
- Phone stipend requests on sponsored funds

OSP reviews other direct expenditures after being charged to an award

OSP Review Checklist

- Available Balance
  - Are funds available to cover the expense?
- Period of Performance
  - Is the expense incurred within the award start and end dates?
- Budget
  - Is the item purchased specified in the budget/budget justification?
  - Is it allowable and allocable to the project?
  - Is it reasonable to make the purchase under the circumstances?

13

OSP Review Checklist

- Fund
  - Is the item purchased charged to the correct fund?

- Account Code
  - Does the account code assigned accurately describe the item purchased and align with the approved budget categories?

- Cost Transfer?
  - Was the expense previously charged elsewhere?
  - If yes, what is the date of the original transaction?
  - What is the justification?

14

Post Audit Review Process

Post Audit Review of Direct Expenses

Typically Reviewed Account Codes
- Airfare, Domestic over $1,000
- Airfare, Foreign
- Candidate Account Codes
- Employee Training Travel
- Team lodging
- Moving/Relocation charges
- Dues – Professional Organizations

(Cont'd)

15

Post Audit Review Process (Cont'd)

Typically Reviewed Account Codes
- Participant Support
- Subscriptions
- Honoraria
- Suspended P-Card Transactions
- Books
- Office Supplies
- Express Mail Services/Fed-ex/Metered Express Mail
- Photocopying

More information about account codes can be found on the Fiscal Services website at: http://fiscal.gmu.edu/expenditure-account-codes/

16

Documenting Grant Expenses

- Documentation must support that expenses are necessary to accomplish the objectives of a project, allocable to the project, reasonable, and consistently treated.
- Documentation should be adequate to support and justify that
  - The expense provides a direct benefit to the award
  - The expense complies with award restrictions and approval requirements outlined in the terms and conditions of the award
  - For expenses generally treated as indirect, the expense qualifies as "unlike purpose and circumstance" on the award

17

Key Points

- Everyone has a role in ensuring financial compliance
- Use the approved budget as your guide
- Costs must be allowable, allocable, reasonable and consistently treated
- Monitor expenses regularly to ensure they are charged appropriately and that errors are identified and corrected in a timely manner
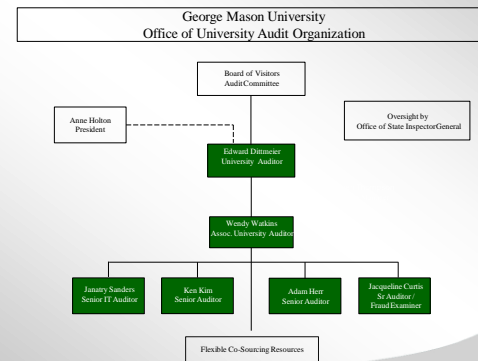- The goal is to avoid questionable costs and audits

18

Internal Audits

19

Office of University Audit

George Mason University
Office of University Audit Organization

Board of Visitors
Audit Committee

Anne Holton
President

Oversight by
Office of State Inspector General

Edward Dittmeier
University Auditor

Wendy Watkins
Assoc. University Auditor

Janatry Sanders
Senior IT Auditor

Ken Kim
Senior Auditor

Adam Herr
Senior Auditor

Jacqueline Curtis
Sr Auditor /
Fraud Examiner

Flexible Co-Sourcing Resources

20

University Audit Mission

- Provide independent, objective, **risk-based assurance** services designed to add value and improve the university's operations.
- Use a systematic, disciplined approach to evaluate and improve the effectiveness of university **governance**, **risk management**, and **control** processes related to:
  - **Achievement** of the university's **strategic objectives**.
  - Reliability and integrity of significant financial and operational information.
  - Effectiveness, efficiency, and economy of operations and programs.
  - Safeguarding of assets.
  - Compliance with applicable laws, regulations, policies, procedures, and contracts.

21

University Audit Approach

- Biannual risk assessment / business monitoring
- Planning
- Governance, risk management, and monitoring
- Control design and evaluation
- Reporting

22

"Continuous" Auditing of Reconciliations

Audit / Attributes

- Compliance with Mason Reconciliation Policy, 2114
  - Approvals
    - All required approvals
  - Timely completion
    - Approvals noted within policy requirements
  - Appropriate support
    - Support substantiates expenditures

Interactions

- Reconciler (PI in cc) will receive email to provide reconciliation evidence
  - Includes signed off reconciliation and supporting evidence
- Follow-up for clarifications from Internal Audit
- Feedback on any non-compliance noted

23

Other Areas of Current Focus

- Conflict of Interest / Conflict of Commitment
  - Outside employment
  - Outside professional commitments
- Foreign Influence
  - Sensitive / classified information
  - Intellectual property with commercial applications

24

6

External Audits

25

Reviews / Audits

- Audits
- Desk Reviews
- Financial Exam
- Site Visit
- Routine Financial Monitoring Site Visit
- Enhanced Programmatic Desk Review (EPDR)
- On-site Compliance Visit

- FOIA – Freedom of Information Act – Open Records Request – Contact Elizabeth Woodley

26

Compliance

- Sponsored funds are not ours, so we are accountable to sponsors, taxpayers, Congress, etc.
- Need to make sure sponsored funds are being used for their intended purposes, expenditures must be justified
- Nobody wants to see Mason on the front page of the newspaper related to the inappropriate use of research funds
- We all have a role with ensuring compliance with project requirements

27

What to Do?

- Contact OSP if you or the PI receives a notice from a sponsor requesting financial information, or a visit, or uses a term listed on the previous slide, or not sure!

- OSP will submit the required documents

28

Audits / Reviews

- National Science Foundation (NSF)
  - Payroll Certification
- Department of Justice
- Department of State
- Virginia Department of Education
- Virginia Department of Criminal Justice Services
- Small Business Administration
- Foreign Government

NSF – Payroll Certification

Timeline

- January 2011 Start of the payroll certification pilot
- March 2013 The audit was announced
- June 2015   Audit report and reply by Mason
- November 2015 Completion of audit

  https://www.nsf.gov/oig/_pdf/15-1-017-GMU.pdf

NSF – Payroll Certification

180 sample transactions for allowability against the following criteria:
- Generally Accepted Accounting Principles (GAAP)
- National Institute of Standards and Technology guidance on information technology
- OMB Circular A-21, Cost Principles for Educational Institutions
- NSF Proposal and Award Policies and Procedures Guide (PAPPG)
- Individual award agreements
- GMU Policies and Procedures

NSF – Payroll Certification

Samples

Salary and Wages charged to NSF awards

- Payroll dates January 2010 - March 2013
- 9,676 Transactions totaling $11,914,994
- 180 totaling $209,194 selected
- Approximately 2% sampled

NSF – 2 Month Limit

- Rate used to calculate the 2 Month Limit Amount was the highest base salary amount for each employee's permanent position
  - 12-month faculty, the effective date of the appointment year used for the calculation was July 25th
  - 9-month faculty, the effective date used was August 25th

33

High Risk Pay Transactions

Identified Account Codes
- Classified Annual Leave Balance
- Relocation Benefits Taxable
- Relocation Benefits Non-Taxable
- Overtime-Wages
- Graduate Research Assistant (GRA) Exceeds Hours

34

NSF – Audit Findings - Reconciliations

Not completing bimonthly reconciliations timely
- Bimonthly reconciliations provide interim verifications between the longer timeframe of the annual certifications, timely completion of the interim checks improves confidence in the annual certification of labor charges under the pilot system
- Original 2013 internal reconciliation audit
  - 2 of 14 completed correctly
  - 9 not signed by both the preparer and approver
  - 2 late certification
  - 1 certified prior to end of the reporting period

35

NSF - Audit Findings - Reconciliations

NSF recommendation
- Ensuring that bimonthly reconciliations are completed and returned in a timely manner

Mason agreed
- Bimonthly reconciliations are a critical control step, and stated that it is developing improved reconciliation reports and will continue outreach and training on this critical step in the process

36

NSF – Findings - Other

- GMU failed to follow its internal policy
  - No prior approval to allow a student to work on both a graduate position and a student wage position within the same period
- Timeliness of Certifications
  - NSF Recommendations Ensuring that costs associated with late SPPERs Sponsored Project Payroll Expense Reports are transferred to non-sponsored accounts
  - Mason changed trigger date for Payroll reports the start date from the end date

37

Why Monitor Effort/Salary?

- Salary and wages account for approximately 60% of all sponsored expenditures
- Certification of salary and wages on federal awards is required by the federal government
- Key area of focus by auditors to verify what was proposed was actually done

38

Department of Justice (DOJ) Reviews

- Request for Review
- Full Day Meeting to Discuss the desk review
- Provide data
- Updates on findings between parties
- Initiate Grant Adjustment Notice

(GAN - a request to make a programmatic, administrative, or financial change to a grant)

  - If approved, submit information to reviewer
  - If disapproved, submit JV or FCF to reallocate charges and provide documentation to reviewer

39

DOJ Review

- The purpose of the review is to:
  - Assess and ensure compliance with the regulations, terms, and conditions for each OJP grant under review;
  - Examine the programmatic progress of each grant;
  - Validate information that has been reported through progress reports, performance measurement tools, and Federal Financial Reports (SF-425 FFR); and
  - Provide technical assistance for grant management requirements, as necessary

40

DOJ Samples of Expenditures Reviewed

- Foreign Travel
  - Proposal listed travel to Annual Meeting in Amsterdam Y1
  - Attended Annual Meeting in Toronto Y2
  - Sponsor requested cost breakdown of all conference related expenses for both locations to ensure that Toronto costs did not exceed the budget
- Presenter's Travel
  - Requested Agenda listing presentation
  - Requested Powerpoint/presentation noting that DOJ provided funding
- Consultants
  - Daily Rate higher than DOJ rate $650/day
  - Requested justification for higher pay
  - Requested proof of prior approval

41

What's Next

- Review and Revise Policies / Procedures
- Provide Training and Resources
- Post Award Audit – revise transactions reviewed
- Improve Grant Management
- Expect Future Audits / Reviews

42

43