



RUTGERS

THE STATE UNIVERSITY
OF NEW JERSEY

Audits and the Audit Process

Agenda

- Introduction
- Terms and Concepts
- Types of Audits
- Types of Auditors
- Consequences of Noncompliance
- The Audit Process
- Major Areas Emphasized
- Some Red Flags
- What We Can Do

Introduction

Merriam-Webster Dictionary defines the noun “audit” as a methodical examination and review. As a verb, it means to examine with intent to verify.

No matter where you work at Rutgers, you can expect to encounter audits. Rutgers’ ability to contribute efficiently and effectively in the process plays a big role in the outcome.

The best way to assure that audits go smoothly is to create and maintain good records.

Terms and Concepts

In almost any audit involving proposed or actual costs associated with sponsored programs, auditors will be looking for evidence to answer these three questions:

- Are the costs allowable?
- Are the costs allocable?
- Are the costs reasonable?

Allowability

Allowability for costs relating to sponsored projects is determined by the provisions of the governing sponsored agreement, University policies and procedures and by OMB Circular A-21 (2 CFR 220).

Allocability

An expense is allocable to a sponsored project if the material or services being charged benefits that project.

Allocability is not the same as allowability.

An otherwise allowable cost (i.e. salary) may be unallowable to a particular account if the project supported by that account did not benefit from the cost

Reasonableness

Reasonableness is a subjective quality that requires application of the “prudent person” test.

An auditor may legitimately question a cost that is clearly allocable and not otherwise unallowable if in the auditor’s judgement, the costs exceed what a reasonable person would have paid in similar circumstances

Types of Audits

1) Claimed Costs Audits

To verify the allowability, allocability and reasonableness of costs that have been charged and billed/reported by Rutgers. Commonly carried out at the completion of a project, when Rutgers presents a close-out bill/report to the agency.

2) F&A Audits

To verify the allowability, allocability and reasonableness of the proposed and incurred F&A costs in the Rutgers F&A proposal and corresponding cost studies.

Types of Audits - Continued

3) PreAward Audits

To verify the estimated costs submitted in proposals for large sponsored research projects. Generally less common.

4) Compliance and General Control Audits

Auditors of all types depend on Rutgers' internal controls to achieve compliance. KPMG, (assisted by RU Internal Audit) annually conducts a single federal compliance audit as required by OMB A-133 and state compliance audit as required by SNJ OMB 04-04.

Types of Audits - Continued

5) Financial Statement Audits

Annually, KPMG conducts an audit to assess the accuracy and fairness of the University's year-end financial statements.

Types of Auditors at Rutgers

- Auditors from federal agencies including Department of Health and Human Services (DHHS)
- Auditors from other funding agencies
- Auditors from external certified public accounting firms i.e. KPMG.
- Members of Rutgers Internal Audit department

Federal Auditors

The federal government sponsors a great deal of research and instruction at Rutgers and provides a considerable amount of additional funding in the form of student grants and loans.

DHHS is responsible for the establishment of F&A rates for all federal agencies sponsoring work at Rutgers.

While DHHS's primary focus is on federal contracts, other federal agencies may also rely on DHHS to perform audits relating to their funding

Other Sponsor Auditors

Occasionally, other federal sponsors will perform their own audits rather than retain DHHS.

Independent Public Accounting Firms

Rutgers currently contracts with external independent public accounting firms to perform several types of audits.

The firms of KPMG, Bearing Point and PricewaterhouseCoopers have all performed projects in the capacity of both independent auditors and management consultants.

Funding agencies may also use independent public accounting firms to perform their audits as well. For example NSF's use of Booze Allen & Associates

Rutgers' Internal Audit

Rutgers' Internal Audit carries out regular audit programs primarily for testing and strengthening the University's system of internal controls.

Internal Audit also coordinates the activities of other auditors working on the campus

Consequences of Noncompliance

- Fines and Penalties
- Additional oversight/monitoring by the government
- Loss of Expanded Authority privileges
- Potential reduction in federal funding
- Professional integrity compromised
- Suspension, debarment, exclusion of individuals or the University as a whole
- Increased scrutiny of awards by other sponsors

The Audit Process

DGCA coordinates audits concerning sponsored programs by external auditors for all three campuses.

- Notification of Upcoming Audit
- Entrance Conference
- Audit Fieldwork and responding to Audit findings
- Exit Conference
- Draft Report and submission of Rutgers Response
- Corrective action, if needed and implementation
- Follow-up

Major Areas Emphasized

- Salaries and Wages/Effort Reporting
- Equipment
- Cost-Sharing
- Cash
- Cost Transfers

Some Red Flags

Cost transfers processed more than 90 days after the original charge was incurred or appeared on the ledger

Cost transfers processed without a detailed explanation or information. For example, “To transfer to correct account or “To clear overdraft/deficit” are NOT adequate explanations and will be questioned in an audit

Cost transfers affecting previously certified Effort reports

What We Can Do

Salaries and Wages/Effort Reporting

- Key Personnel
- Administrative and Clerical Salaries
- Salary Reallocations
- Summer Compensation/NIH Caps
- Teaching Assistants/Graduate Assistants/Tuition
- Fellows on Research Awards
- Overtime/Other Compensation/Overload
- Effort Certification

What We Can Do - Continued

Cost-Sharing

- All promised cost-sharing has been identified and recorded
- Cost-sharing salaries have been certified
- In-kind cost-sharing documentation meets criteria defined in OMB A-110 (2 CFR 215).
- Proportionate spending between award and cost sharing account(s).

What We Can Do - Continued

Cost Transfers

- All transfers processed in a timely manner (<90 days) with detailed acceptable justifications and references
- Salary Reallocations - Days and Dollars should not exceed the amounts charged during period indicated
- Confirm Effort Certification vs. Re-certification
- Authorized Signatures

What We Can Do - Continued

Cash

- LOC Drawdowns/Excess Cash on Hand
- Program Income properly accounted for
- Interest properly accounted for

What We Can Do - Continued

Expenses Charged

Have documentation to support purchases / expenditures

Other

- Excessive expenditures/cost transfers at end of project
- Consultants/Equipment
- Other OMB A-21 F.6.B Costs (2 CFR 220)
- Subcontracts/Invoices/Closeout Documents
- Reporting Deadlines
- Comprehensive Closeout Packages with detailed notes and supporting schedules/documentation

QUESTIONS?

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