

SPS Financial Compliance Overview



Regulations and Policies to Comply With

- Federal Regulations
 - OMB Circular A-21: Cost Principles for Educational Institutions
 - OMB Circular A-110: Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
 - OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations
 - FAR: Federal Acquisition Regulation
 - Agency policy guidelines
- Terms and Conditions of grants and contracts
- ABOR and University Policies

- **Inspector Generals of Federal agencies:** conduct audits to detect fraud, waste and abuse.
- **HHS DCA (division of cost allocation):** review, audit, and approve our indirect cost rate
- **Grants officers of Federal agencies:** review cost claims, financial reports, and question expenditure items.
- **AZ Auditor General:** conduct annual A-133 audit.
- **Non-federal sponsors:** conduct audits of programs and projects
- **ABOR auditors:** conduct audits to ensure State and ABOR policies are followed and to detect fraud, waste and abuse
- **Internal auditors:** conduct audits to ensure State, ABOR, and University policies are followed and to detect fraud, waste and abuse

- **Maintain trust between sponsors/public and the University**
- **Provide stewardship to safeguard research investment**
- **Avoid consequences of non-compliance**

- **Withholding of future awards**
- **Audit findings and cost disallowance**
- **Multi-million dollar lawsuits settlements**
- **Criminal/civil/administrative penalties**
- **Loss of administrative flexibilities: eg. automatic carryover and no cost extension**
- **Negative publicity and damage to the University's reputation**
 - **Sponsors**
 - **Donors**
 - **Faculty**
 - **Staff**
 - **Students**

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- **Multi-million dollar lawsuits**
 - Dec. 08, Yale University, \$7.6 million
 - April 06, Clark Atlanta University, \$5 million
 - Jan. 06, University of Connecticut, \$2.5 million
 - Dec. 05, Rush University, \$1 million
 - June 05, Cornell University, \$4.3 million
 - June 05, Mayo Foundation, \$6.5 million
 - March 05, Florida International University, \$11.5 million
 - July 04, Harvard University, \$2.5 million
 - March 04, John Hopkins University, \$2.6 million
 - Feb. 04, Lawrence Livermore National Lab operated by UC, \$3.9 million
 - Sept. 03, University of South Florida, \$4.1 million
 - Feb. 03, Northwestern University, \$5.5 million

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- Recent Audits
 - From June 06 – present: NSF audit of effort reporting systems at 30 universities including UA and ASU
 - Jan 09, Duke University: administrative and clerical costs
 - Sept 07, Brandeis University: administrative and clerical costs
 - June 07, NIH review of graduate student compensation
 - April 07, Thomas Jefferson University: cost transfers
 - March 07, California Technology Institute: payroll distribution system
 - March 07, Georgia State University: cost sharing and subrecipient monitoring
 - March 07, Temple University: internal control and cost allowability
 - March 07, University of Puerto Rico: internal control and cost allowability

- Recent Audits (Cont'd)
 - March 07, American Institute of Mathematics: internal control and financial compliance
 - Sept 06, Boston University: cost transfers
 - Sept 06, University of Hawaii and New Mexico Highlands University: cost sharing and subrecipient monitoring
 - June 06, University of Chicago: cost transfers
 - June 06, University of Pennsylvania: effort reporting
 - June 06, University of Arizona: subrecipient monitoring
 - April 06, Howard University: mismanage NSF funds
 - March 06, University of Massachusetts: unallowable subgrantee costs
 - March 06, Columbia University: cost sharing
 - Feb. 06, Yale University: effort reporting and cost transfer documents subpoenaed by three agencies

- Cost allowability
- Cost transfers
- Effort reporting
- Cost sharing
- Subrecipient monitoring
- Recharge centers
- Indirect costs and the CAS
- Financial reporting and closeout

- Allowable, reasonable, allocable, and applied consistently
- Adequate monitoring
 - Timely review of grant expenditure
 - Correct errors immediately
 - Monitor budget to avoid overruns
 - Sufficiently document direct charging of clerical and administrative salaries and other admin. costs
 - PI must be informed of expenses and balances
 - Manage NIH over-the-cap salary costs and NSF 2/9th limitation
 - Avoid excessive cost transfers and untimely transfers
- Useful resource
 - OMB Circular A-21, Section J
 - NIH Grants Policy: Cost Considerations
 - SPS Direct and Indirect Costs Policy
 - FRS Departmental Manual
 - Specific sponsor terms and conditions

- Allowable
- Allocable: Is the allocation basis reasonable
- Timely
- Reasons and allocation basis for transfers must be documented in detail
 - OMB Circular A-21
 - NIH Grants Policy
- Transfer of certified payroll costs may not be allowed
- Useful resource
 - OMB Circular A-21
 - NIH Grants Policy

- Reflect actual effort spent on projects
- 100% university compensated effort included
- Include committed cost sharing
- Completed timely
- Signed by individuals who have the first hand knowledge or suitable means of verification of the work performed
- Time cards specifying activities or after-the-fact confirmation by PI serve as suitable means of verification
- Designated official's signature is valid only when after-the-fact confirmation is documented and obtained
- Difference between effort reports and payroll distribution adjusted immediately
- Useful resource
 - OMB Circular A-21, Section J.10.
 - SPS PI Handbook
 - SPS Interim Effort Reporting Policy and Procedure

- Commitment met and reported correctly and timely
- Allowable
- Not funded by other federal sources
- Not committed to other grants
- Tracked and documented
- Third party contribution documented
- Prime grantee responsible for meeting the cost sharing
- Useful resource
 - OMB Circular A-110
 - NSF Grant Policy Manual
 - NIH Grants Policy
 - SPS Interim Cost Sharing Documentation Policy and Procedure

- Subrecipient adequately monitored
 - Risk level assessment
 - Review of A-133 audit report
 - Review invoices and supporting documents for allowability and allocability
 - PI confirms technical progress by approving invoices before payment is processed
 - Review cost sharing commitment and supporting documentation
 - Periodic desk reviews or on-site audit
- Useful resource
 - OMB Circular A-110
 - OMB Circular A-133: compliance supplement
 - UA's Office of Research and Contract Analysis

- Operated on a break-even basis
- Billing rate based on actual costs
- Billing rate does not include unallowable costs
- Billing rate reviewed and updated at least biennially
- Billing rate the same for all internal customers
- Transactions at arm's length
- Useful resource
 - OMB Circular A-21, Section J.47.
 - FRS Departmental Manual, Section 18
 - FSO: Lupe Valencia

- Indirect cost proposal documented carefully
- Indirect cost rate applied correctly and consistently to grants
- Disclosure Statement (DS-2) consistent with actual practice
- Cost Accounting Standard (CAS) applied to educational institutions
 - 501: consistency in estimating, accumulating and reporting costs
 - 502: consistency in allocating costs incurred for the same purpose

- 505: accounting for unallowable costs
- 506: consistency in using the same cost accounting period
- Useful resource
 - OMB Circular A-21
 - FSO: Lupe Valencia

- Financial Status Report (FSR) submitted on time
- FSR accurate and complete
 - No unallowable costs
 - Cost sharing captured and reported
 - Subcontract costs allowable and accurate
 - Program income included
 - Indirect costs charged correctly
- Closeout
 - Charges and transfers made near and after the grant end date should be sufficiently documented and justified
 - Overruns to be removed
 - Unallowable costs to be removed

- Clinical trials and fixed price contracts
 - Price budgeted with costs in mind
 - Solid billing and A/R systems
 - Avoid cross-subsidization from other grants
 - Avoid large percentage of residuals which could trigger detailed reviews
- Equipment purchases: contact Doug Hilyard
- Research compliance: contact Elizabeth Boyd

- Establish and maintain policies and procedures
 - Current
 - Compliant
 - Communicated and understood
 - Follow the policies and procedures
- Adequate systems
- Strong internal controls
- Clearly defined roles and responsibilities
- Sufficient training
- Monitoring programs
- Sufficient documentation
- Understand Federal regulations and policies

Bottom Line: It's important to remember the basic spending principles at all time!

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- Allowability
- Reasonableness
 - Necessary
 - Arm's length transaction*
 - The prudent person test
 - Consistent with policies and procedures
- Allocability
 - Chargeable or assignable to a project in proportion to the benefit received
 - Reasonable allocation basis without undue effort or cost
 - May not shift costs to eliminate deficit or for convenience
 - Documentation
- Consistent Treatment of Costs
- Reference: A-21 Section C1-4

* A transaction in which the buyers and sellers act independently of each other and have no relationship to each other.

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SPS Training Opportunities

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- Online training material and other resources:
<http://sps.arizona.edu/financialcompliance/training/>
- Check ISW training web site for live sessions
- NCURA tapes or CD-Rom
- Subcontracts: contact ORCA
- Indirect cost rate and recharge centers: contact Lupe Valencia
- To request training sessions be presented at your location:
contact Marcel Villalobos at 626-6660 or via email at
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