Michigan State University

Sponsored Program Audits
Financial Administrator Development Program
October 25, 2016

Dan Evon, Director, Contract and Grant Administration
Evonne Pedawi, Assistant Director, Contract and Grant Administration
Research Administrators

- Dan Evon, Director, Contract & Grant Administration
  - MSU Accounting
  - Council of Governmental Relations – Costing Committee
  - 38 years MSU experience
- Evonne Pedawi, Assistant Director, Contract & Grant Administration
  - MSU Chemical Engineering and Mathematics
  - Coursework at Harvard Law and George Washington University
  - 11 years MSU experience
Sponsored Program Spending ~ 20% of MSU

- **Auxiliary Activities**: $366,540,907 (15.2%)
- **Designated Fund & Other Expendable Activities**: $415,566,728 (17.2%)
- **Sponsored Programs**: $480,521,497 (19.9%)
- **General Fund**: $1,142,945,460 (47.5%)

Source: 2015-16 Expenditures per MSU’s Financial Report
# 141 Sponsored Programs Audits in 4 Years

<table>
<thead>
<tr>
<th></th>
<th>FY 12-13</th>
<th>FY 13-14</th>
<th>FY 14-15</th>
<th>FY 15-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audit</td>
<td>32</td>
<td>30</td>
<td>37</td>
<td>25</td>
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<tr>
<td><strong>External Audits – Plante Moran</strong></td>
<td></td>
<td></td>
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<tr>
<td>MSU Annual Audit</td>
<td>1</td>
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<tr>
<td>NCAA</td>
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<tr>
<td>WKAR (Radio and TV)</td>
<td>2</td>
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<td>2</td>
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<tr>
<td><strong>External Audits – Sponsored Programs</strong></td>
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<td></td>
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<tr>
<td>Federal A-133 - Plante Moran</td>
<td>1</td>
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</tr>
<tr>
<td>Federal Agency Audits (NSF, DOJ, USDA, USAID, etc.)</td>
<td>25</td>
<td>34</td>
<td>25</td>
<td>15</td>
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<tr>
<td>State Audits (MEDC, MDE)</td>
<td>12</td>
<td>8</td>
<td>4</td>
<td>5</td>
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<tr>
<td>Foundation Audits (Kellogg, Gates)</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>2</td>
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<tr>
<td><strong>Subtotal Sponsored Programs</strong></td>
<td><strong>42</strong></td>
<td><strong>46</strong></td>
<td><strong>30</strong></td>
<td><strong>23</strong></td>
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<tr>
<td>Total Audits</td>
<td>78</td>
<td>80</td>
<td>71</td>
<td>52</td>
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</tbody>
</table>
Sponsored Program Audit Trends

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Sponsored Programs Expenditures</th>
<th>Amount Audited</th>
<th>CGA Hours Dedicated to Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2009-10</td>
<td>$411</td>
<td>$55</td>
<td>430</td>
</tr>
<tr>
<td>FY 2010-11</td>
<td>$407</td>
<td>$37</td>
<td>500</td>
</tr>
<tr>
<td>FY 2011-12</td>
<td>$410</td>
<td>$27</td>
<td>580</td>
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<tr>
<td>FY 2012-13</td>
<td>$421</td>
<td>$52</td>
<td>1130</td>
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<tr>
<td>FY 2013-14</td>
<td>$427</td>
<td>$275</td>
<td>2090</td>
</tr>
<tr>
<td>FY 2014-15</td>
<td>$434</td>
<td>$60</td>
<td>975</td>
</tr>
</tbody>
</table>
# Sponsored Program Audits

<table>
<thead>
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<td><strong>Total Sponsored Programs</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>$411M</td>
<td>$407M</td>
<td>$410M</td>
<td>$421M</td>
<td>$427M</td>
<td>$434M</td>
</tr>
<tr>
<td><strong>CGA Hours Dedicated to Audits</strong></td>
<td>430</td>
<td>500</td>
<td>580</td>
<td>1,130</td>
<td>2,090</td>
<td>975</td>
</tr>
<tr>
<td><strong>Amount Audited</strong></td>
<td>$55M</td>
<td>$37M</td>
<td>$27M</td>
<td>$52M</td>
<td>$275M+</td>
<td>$60M</td>
</tr>
<tr>
<td><strong>Paybacks from Audits</strong></td>
<td>*</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$54k</td>
<td>$3k</td>
</tr>
</tbody>
</table>

* MSU discovered IRB protocol error resulted in $108k refund to Yale in 2010: not the result of external audit
$54k on an NSF STTR for equipment purchased when the company and our PI were told no by NSF
$3k was for unapproved foreign travel
What are Sponsored Programs?

- Externally funded projects, mostly research, performed by our faculty, staff & students
- MSU has approximately 3,800 separate accounts setup for these projects, each with its own set of rules for the project and how the money can be spent
- Funding agencies include: National Science Foundation, Gates Foundation, State of Michigan
- Projects include: the Facility for Rare Isotope Beams, Global Center for Food Systems Innovation
Why are Audit and Compliance Activities Important?

- Protect reputation of MSU
- Sustain a relationship of trust between research sponsors and MSU
- Ensure adherence with policies and procedures
- Deterrent for improper activities
- Avoid repercussions of noncompliance
Audits Can Result in Large Repayments

- University of Florida, 2015 $19.875M Settlement
- Columbia University, 2014, $9.02M Settlement
- University of South Florida, 2014, $6.4M Questioned Costs
- Emory University, 2013, $1.5M Settlement
- Northwestern University 2013, $2.9M Settlement
- Florida State, 2012, $3M Questioned Costs – not yet settled
- Cornell - Weil Medical College, 2006, $2.6M Settlement
- Yale University, 2008, $7.6M Settlement
- Clark Atlanta University, 2006, $5M Settlement
- University of Connecticut, 2006, $2.5M Settlement
- Cornell University, 2005, $4.3M Settlement
- Mayo Foundation, 2005, $6.5M Settlement
- Florida International University, 2005, $11.5M Settlement
What Do Auditors Look For?

- Clear policies and procedures, and following those policies and procedures
- Strong internal controls and separation of duties
- Reliable financial management – reports and tools
- Timely and properly recorded transactions in the financial system
- A small number of cost transfers – moving expenses from one account to another
What Do Auditors Look For?

Documentation and allowability for expenditures

- Is it a violation or possible violation of law, regulation, agreement terms?
- Is the cost supported by adequate documentation?
- Does the cost appear reasonable/does it reflect the actions that a prudent person would take?
Types of Sponsored Program Audits

- Agency-Initiated
- Monitoring
- Performance
- Financial
- Compliance
- Whistleblower
- Hotline
- Special Investigations
Who is Involved in a Sponsored Program Audit?

- Faculty – Principal Investigator
- Contract and Grant Administration
- Central Support Offices:
  - Controller, Internal Audit, Purchasing,
  - VP’s for Research & Finance, Gov’t Affairs, General Counsel, Provost, President
- Departmental and College Administrators
- External:
  - AAU, APLU,
  - COGR, Michigan’s Representatives
**Sponsored Program Audit Process**

1. **MSU receives Notification of Audit – CGA is lead office**
2. **Pre-Audit Planning with Faculty and Department Administrators**
3. **Audit Entrance Conference with Auditors**
4. **Perform Audit: Review Documentation, Interview Staff, etc.**
5. **Discussion of Possible Findings during Audit Exit Conference**
6. **Draft Audit Report and Draft Management Response Issued**
7. **Final Audit Report and Management Response Issue**
8. **Resolution of any Disputes**
9. **Final Settlement or Appeal**
Balancing Research and Compliance

• Good documentation takes faculty/Principal Investigator’s time away from research
  • Sometimes the PI is the only one who can explain the benefit to the project of certain expenditures
  • CGA reviews certain high risk transactions

• Training and Guidance for Faculty and Staff
  • Over 70 training opportunities offered and nearly 900 participants trained since 2011

• Technical success can still result in a negative audit in the absence of proper documentation
  • A “bad” audit could jeopardize MSU’s reputation and our ability to receive the next major project
Example: National Science Foundation (NSF) “Data Analytics” Audit

- June 2013 MSU selected as part of a new national initiative
- Comprehensive Audit scope - All financial data for All NSF projects for three years: 2010, 2011 and 2012
  - Spans two different MSU financial systems
- Detailed records ranging from equipment purchases, personnel charges, P-card transactions, vendor files, etc.
- Electronic records provided for approximated $235M on 622 separate projects and more than 232,000 transactions
  - The Kuali Financial System’s (KFS) ability to directly access documentation was crucial to providing timely responses
NSF Data Analytics Audit (continued)

- Site visits by NSF auditors
  - Three auditors for one week in January 2014
  - Three auditors for one week in April 2014
  - About 600 individual transactions selected for detailed review
  - June 2014 MSU received an additional request to support about 1,800 salary charges

- Approximately 1,000 hours of CGA staff time to provide information & explanation to auditors

- Largest audit in my 38 years at MSU

- Data Analytics – More data leading to a larger number of sampled items which can lead to more questioned costs
MSU Caught in Middle of NSF Internal Disagreement

- NSF OIG Initial Audit Finding:
  - Approximately $913k in questioned costs in excess of the NSF two-month salary policy
  - Only issue identified in audit report
- MSU followed NSF Policy Office FAQ’s
Dispute Resolved in MSU’s Favor

November 20, 2014
NSF Policy Office released revised policies to clarify practice.
Very timely response by NSF Management.

March 2015
NSF OIG Issues MSU’s audit with $913,210 in questioned costs.

March – June 2015
MSU provides information to NSF Audit Resolution

September 2015
NSF Audit resolution overrules NSF OIG citing the OIG’s misinterpretation of NSF Policy
Zero questioned costs for MSU!
NSF Data Analytics Audit – Lessons Learned

• MSU policies and practices proven to be effective
• Items selected for audit not limited to large $ values
• KFS storage of electronic documentation critical for timely audit response
• CGA access to PIs and department administrators necessary to building defensible justifications
• MSU should continue to develop and present campus educational opportunities
  • SPROUT, Research Administrators Network (RAN), Essentials of Research Administration (ERA), Uniform Guidance, Effort Reporting, etc.
Summary

• 20% of MSU expenditures comes from sponsored research and other sponsored activity awards
• MSU has effective policies, practices and training
• Internal and external audits provide a confirmation that our policies and practices are compliant
• Important to balance research and compliance burden
• MSU has only had two paybacks in the past 10 years covering ~25,000 research awards with approximately $3.1 billion in research expenditures
• Results in positive MSU reputation for future awards
Questions?

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