

# Michigan State University



**Sponsored Program Audits  
Financial Administrator Development Program  
October 25, 2016**

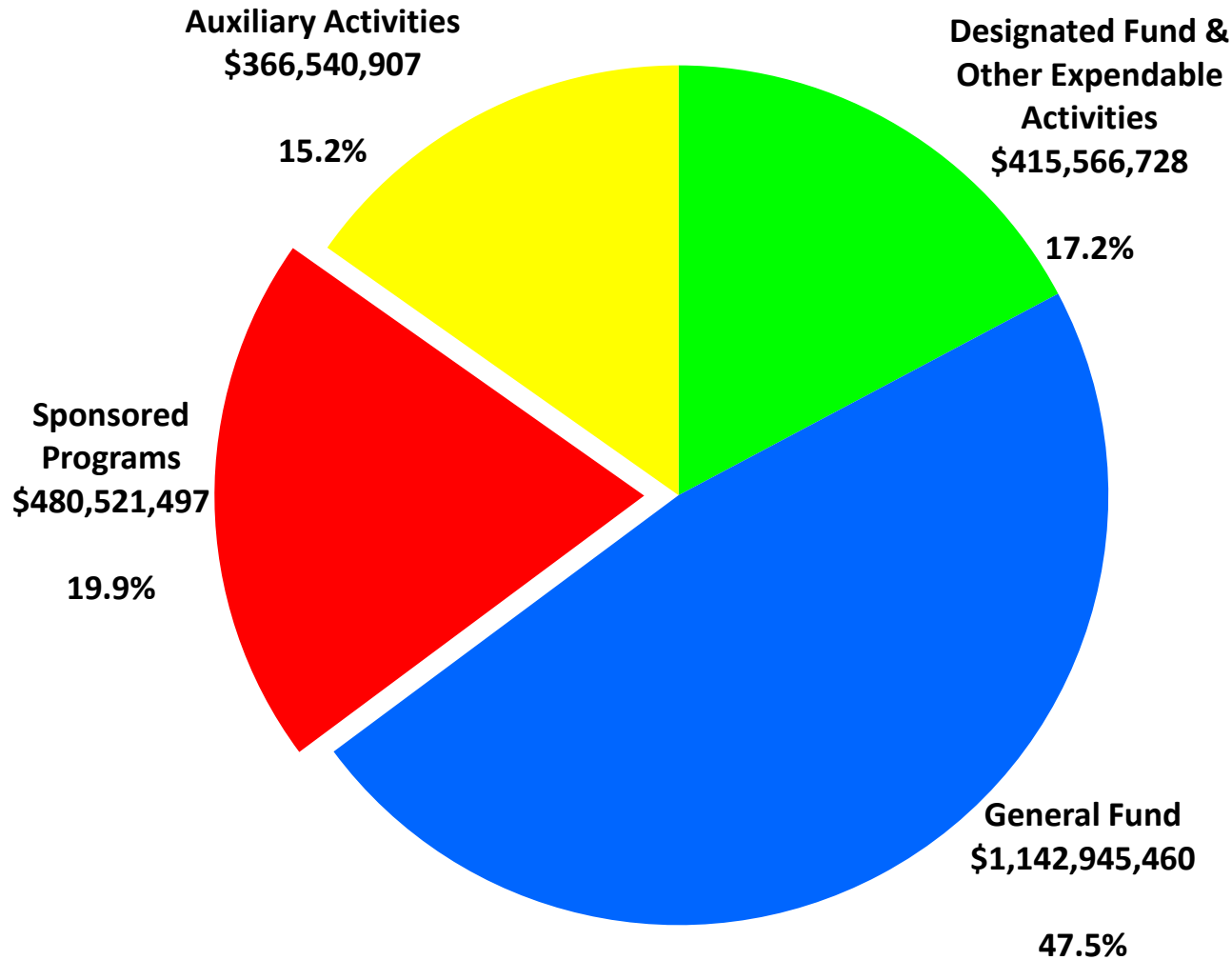
**Dan Evon, Director, Contract and Grant Administration  
Evonne Pedawi, Assistant Director, Contract and Grant Administration**



# 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



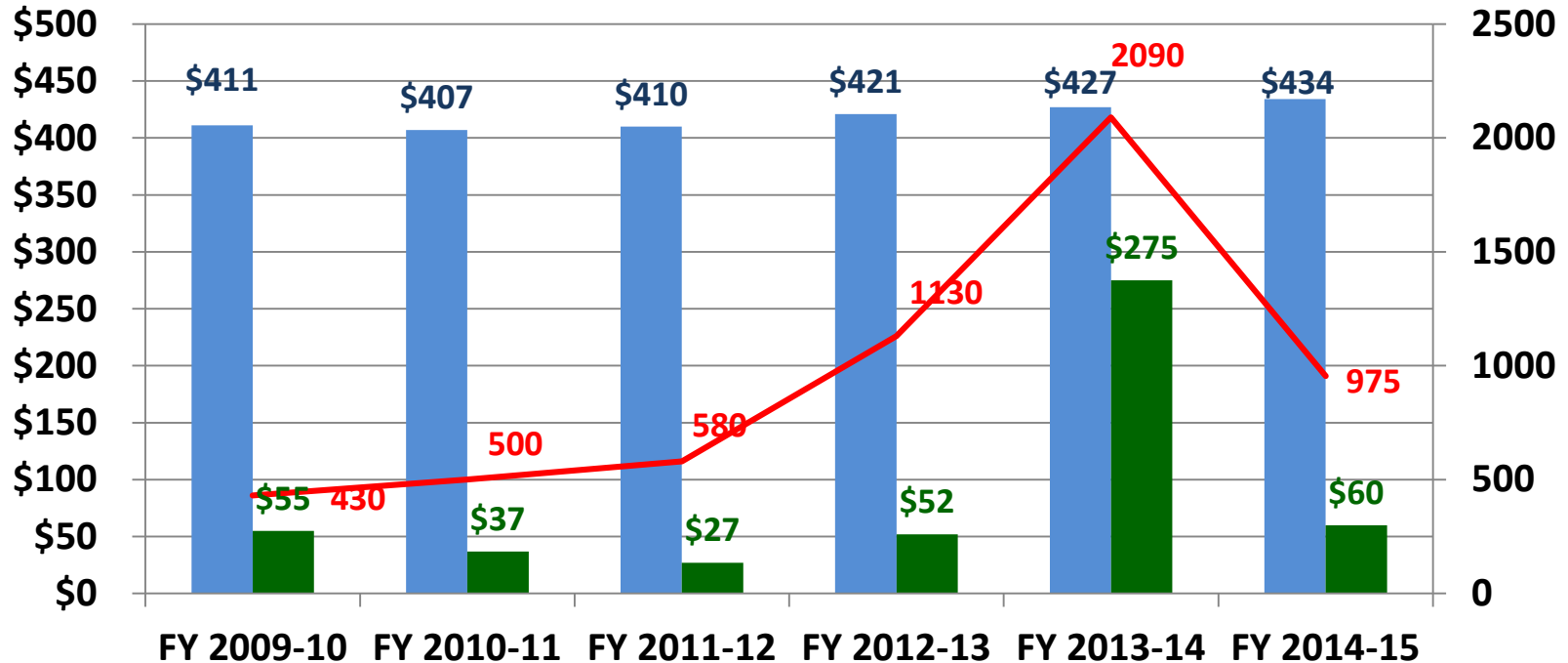
# 141 Sponsored Programs Audits in 4 Years

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

# Sponsored Program Audit Trends

Millions

Hours



■ Total Sponsored Programs Expenditures 
 ■ Amount Audited  
— CGA Hours Dedicated to Audits

# Sponsored Program Audits

	<u>FY2009-10</u>	<u>FY2010-11</u>	<u>FY2011-12</u>	<u>FY2012-13</u>	<u>FY2013-14</u>	<u>FY2014-15</u>
<b>Total Sponsored Programs Expenditures</b>	\$411M	\$407M	\$410M	\$421M	\$427M	\$434M
<b>CGA Hours Dedicated to Audits</b>	430	500	580	1,130	2,090	975
<b>Amount Audited</b>	\$55M	\$37M	\$27M	\$52M	\$275M+	\$60M
<b>Paybacks from Audits</b>	*	0	0	0	\$54k	\$3k

\* 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?

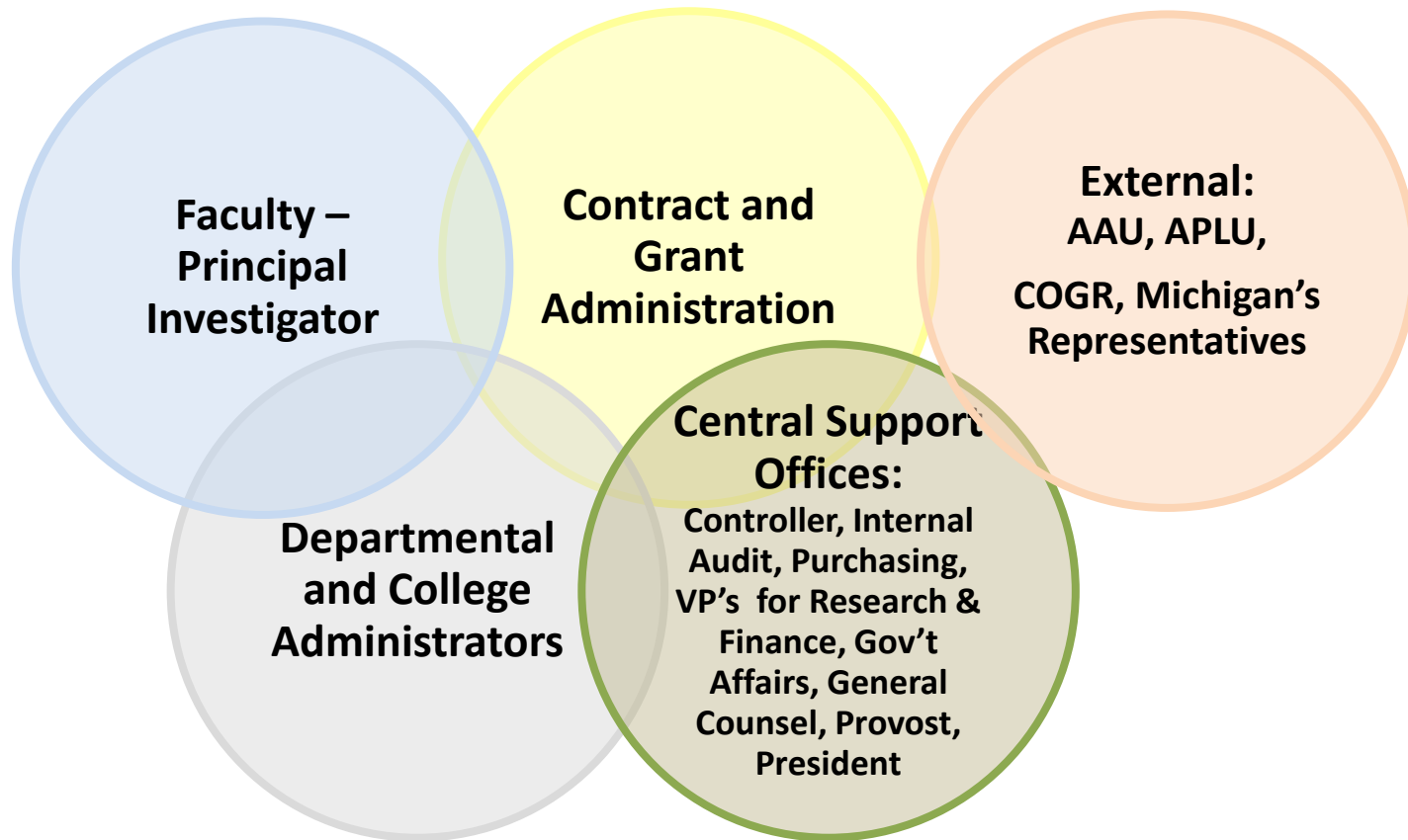
## Documentation and allowability for expenditures

- 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?

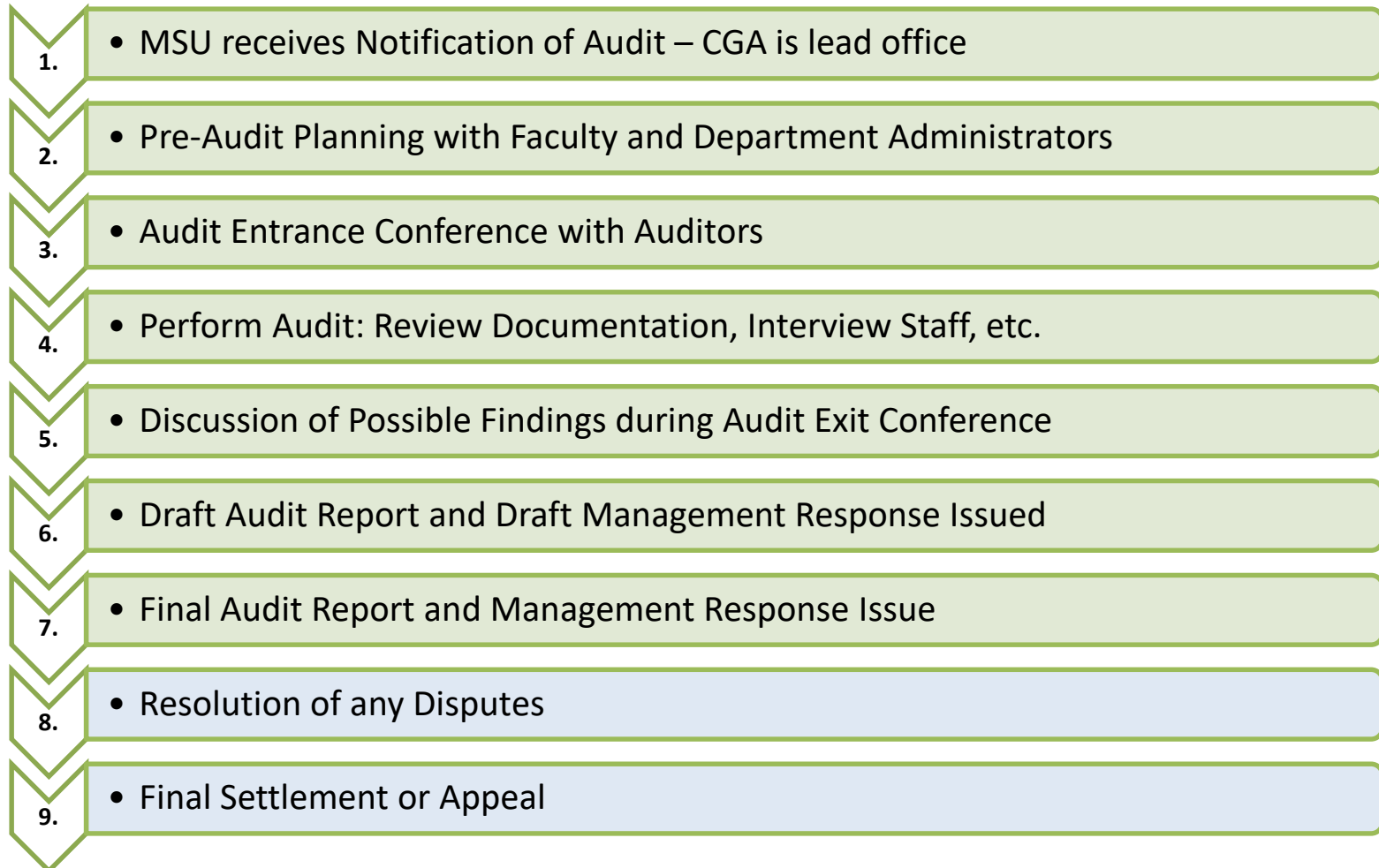
# Types of Sponsored Program Audits

Agency-Initiated  
Monitoring  
Performance Financial  
Hotline Whistleblower  
Compliance  
Special Investigations

# Who is Involved in a Sponsored Program Audit?



# Sponsored Program Audit Process



# 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 Quali Financial System’s (KFS) ability to directly access documentation was crucial to providing timely responses



# NSF Data Analytics Audit (continued)

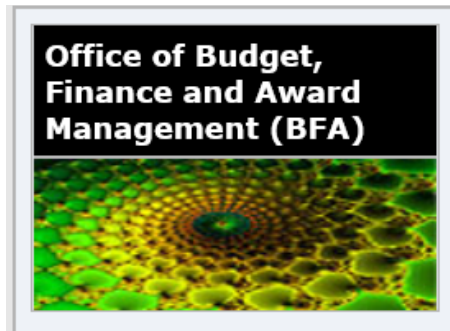
- Site visits by NSF auditors
  - Three auditors for one week in January 2014
  - Three auditors for one week in April 2014
  - About 600 individual transactions selected for detailed review
  - June 2014 MSU received an additional request to support about 1,800 salary charges
- Approximately 1,000 hours 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



National Science Foundation  
WHERE DISCOVERIES BEGIN



# 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?

## Contact Information

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