

NCURA Region 1 RADG Spring Meeting  
April 5, 2005

Emerging A-133 Audit Issues  
and  
Hot Topics

Ralph DeAcetis and Dorian Gregory, PwC

# General Environment

- Federal Perspective – greater accountability
- Auditor Perspective – greater scrutiny
- Industry Perspective – greater administrative time

# AGENDA

- I. Areas of Focus by Federal Agencies
  - Time and Effort Reporting
  - HHS Fiscal 2005 Audit Focus
  - Export Regulation
  - Financial and Technical Reporting
  - Sub-recipient Monitoring
  - Other
- II. Changing Audit Environment
  - GAO – June 2003 Revised Yellow Book
  - Revised Cost Circulars
  - Compliance Supplement
  - Documentation Standards
  - Top Ten A-133 findings
- III. What Institutions Can Do Now to Stay Ahead
- IV. What the Future Holds

# Areas of Focus by Federal Agencies – Time and Effort Reporting

- Probably the most significant A-21 related issue facing the industry today.
- The HHS OIG and the Dept of Justice have become increasingly concerned and aggressive in bringing charges for noncompliance.
  - Several high profile universities have been fined.
  - Auditor work being reviewed.
- FDP is working with agencies to update the rules to better reflect actual operating practices.

## Areas of Focus by Federal Agencies – Time and Effort Reporting

- Institutions must develop and maintain policies defining the activities that comprise 100% of effort compensation.
- Such policies must be consistently applied throughout the organization.
- For example, if an institution requires its faculty members to participate actively in the three missions of teaching, research and patient care as part of the faculty member's full-time appointment, the institution should define this clearly in its policies.
- Must also comply with specific terms of specific awards.

## Areas of Focus by Federal Agencies – Time and Effort Reporting

- NIH “K” awards require 75% of the faculty member’s total professional time. In early August, NIH further defined and clarified this rule.
- Department head or person authorized, **who has first-hand knowledge** of each employee’s time and effort required to confirm the labor distributions.
- Adjustments must be made if actual T&E differs. Apply a minimum threshold; 5% or more, for example.
- Any changes to effort should be annotated on the effort reporting form or as a cost transfer, if retroactive.

# Areas of Focus by Federal Agencies – Time and Effort Reporting Areas of Risk

- Individuals completing effort reports don't understand the requirements
- Multiple sources of pay
- NIH salary cap
- Summer salaries
- Cost transfers not incorporated into certification

# Areas of Focus by Federal Agencies – Time and Effort Reporting

Indicators that T&E systems and controls may need to be strengthened:

- Missing or incomplete effort reports
- High volume of cost transfers
- Multiple documents recording faculty effort
- Career award (K awards) awarded to clinical faculty
- Incentive pay agreements that include specific clinical productivity targets
- Dual appointment letters to clinical and research

## Areas of Focus by Federal Agencies – Time and Effort Reporting: What Institutions Can Do Now

- Review time and effort reporting systems
  - Timeliness of certification
  - Completeness of knowledge of person certifying
  - Accountability of time incurred at other entities
  - Reconciliation of actual effort to effort committed
  - Documentation of Professional commitment-K awards
  - Central administration policies

## Areas of Focus by Federal Agencies – Time and Effort Reporting: What Institutions Can Do Now, continued

- Provide training to administrators and faculty
- Update processes and systems to improve internal controls
- Monitor compliance

# Areas of Focus by Federal Agencies – HHS Fiscal 2005 Audit Focus

- Assess how and to what extent through the Single Audit process auditors assess and document compliance with A-21 effort reporting requirements
- Significant focus on hospital Medicare and Medicaid programs (both stand alone and university hospitals)
- Effort reporting: Rule F6(b) direct vs. indirect charges

## Areas of Focus by Federal Agencies – HHS Fiscal 2005 Audit Focus, continued

- Over-commitment of PI effort on NIH award applications
- Recharge (service) center compliance with A-21
- Security of select biological and chemical agents at laboratories including inventory procedures, physical safeguards, adherence to CDC regulations and background checks of employees

## Areas of Focus by Federal Agencies – HHS Fiscal 2005 Audit Focus, continued

- C&U policies and procedures to protect medical records of those participating on NIH funded clinical trials and other research (HIPPA)
- Royalty income due NIH for NIH licensed technology
- IRB use of “adverse event reports”
- Program review over community health centers
- Draft voluntary compliance program guidance for recipients of NIH research awards

## Areas of Focus by Federal Agencies – Deemed Export Rule

- Release of technology or source code to foreign nationals in the U.S. is deemed a release to the home country of the individual.
- C&U may be required to obtain export licenses before transferring certain kinds of technical data to foreign nationals from export-restricted countries.

## Areas of Focus by Federal Agencies – Deemed Export Rule, continued

- Failure to obtain required licensing can result in severe civil and criminal penalties, including fines, loss of export privileges, and imprisonment.
- Some exemptions - however, exemption requires careful analysis, diligent compliance with several requirements, and close scrutiny of contract and project terms (e.g., publication restrictions) to avoid disqualifications.

# Areas of Focus by Federal Agencies – Federal Award Reporting

- OMB Circular A-110 requires Financial Status Reports
- Pervasively higher delinquency rates in financial and technical reporting
- HHS and NSF recommendations to program management:
  - Develop automated reminder systems
  - Improve ability for electronic submission of documents
  - Focus more attention on late reporting
  - Consider withholding future funding until the researcher and/or institution is caught up on late reports
- Complex issue, requires C&U to work with federal agencies to strike a reasonable balance; qualitative and quantitative factors in determining a finding.

## Areas of Focus by Federal Agencies -Sub-recipient Monitoring

The 2004 Compliance Supplement was revised to clarify OMB's expectations related to sub-recipient monitoring.

- Annual request for sub-recipient's A-133 report is not enough.
- On-going review and oversight is expected and may include:
  - Reviewing financial and performance reports
  - Performing site visits to review information and observe operations (not required)
  - Regular contact and appropriate inquiries

# Changing Audit Environment - GAO

## What's in a name?

In 2004, the GAO formally changed its name from General Accounting Office to *Government Accountability Office* to ensure... “that recent accountability failures, such as Enron and WorldCom, are not repeated in the public sector.”

# Changing Audit Environment – GAO: June 2003 Revised Yellow Book

- Revised Independence Standards and updated auditor's responsibility to detect material misstatements resulting from contract violations to include a requirement that auditors be alert to indications of abuse
- New Abuse Standard

# Changing Audit Environment – GAO: June 2003 Revised Yellow Book

## Independence Documentation of Non-Audit Services

### Two Overarching Principles:

1. Auditors should not provide non-audit services that involve performing management functions or making management decisions.
2. Auditors should not audit their own work, or provide non-audit services in situations where those services are significant or material to the subject matter of the audit.

# Changing Audit Environment – GAO: June 2003 Revised Yellow Book

## Abuse Standard

“Auditors should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the financial statement amounts or other financial data, auditors should apply audit procedures specifically directed to ascertain whether abuse has occurred and the effect on the financial statement amounts or other financial data.”

“However, because the determination of abuse is subjective, auditors are not expected to provide reasonable assurance of detecting abuse.”

## Changing Audit Environment – Cost Circulars

- OMB issued revised Circulars A-21, A-87, and A-122 (effective June 9, 2004)
- Changes are confined to the items of direct costs that are detailed in each Circular, to bring consistency across the three Circulars to reduce the possibility of misinterpretation.
- No substantive changes, but will require some enhanced documentation.
- [www.omb.gov](http://www.omb.gov) has a chart that lists all items of cost and where they are found in each circular.

# Changing Audit Environment – Compliance Supplement

Effective for periods beginning after 6/30/03:

- Indirect cost rate proposal generally need not be audited
- Service center required procedures
- CAS-DS2 required procedures
- Sub-recipient monitoring: prime recipients can look to the DCF database to verify a sub-recipient did not have findings in lieu of obtaining an A-133 report.

## Changing Audit Environment - Documentation

“When documenting your work, assume it will be reviewed by a third party and critically assessed.”

John Fisher, HHS OIG

If it is not documented, the presumption is that it was not performed.

# Changing Audit Environment – Documentation Standards

## Areas of focus:

- Time and effort reporting
- Cost sharing requirements
- Evidence of operation of system of internal controls
- Other

# Top Ten A-133 Findings

1. Late reports
2. Sub-recipient monitoring policy not robust
3. Time and effort certification – late/incomplete
4. Cost transfer policy lacking
5. Overall documentation deficiencies
6. Policies are not up-to-date
7. Procurement decisions not documented
8. Travel/expense reporting sloppy
9. Service center breakeven analysis not well documented
10. Equipment inventories not up to date and records not complete

# What Institutions Can Do Now to Stay Ahead

- Review time and effort reporting systems and strengthen them where needed.
- Review written policies and procedures for monitoring sub-recipients, and strengthen them where needed.
- Review cost-sharing commitments and methods for tracking.
- Review financial and technical reporting systems, and work with federal agencies to establish reasonable deadlines

## What the Future Holds

- Further changes to A-21
- New hospital cost principles
- Removal of the 26% cap
- AICPA revisions to SAS 60 to adopt significant deficiency and do away with reportable conditions. Will require OMB, GAO and Federal Agencies to adopt this change.

## What the Future Holds, continued

### GAO

- Closely monitoring Sarbanes 404 provisions
- May eventually mandate applicability to Federal agencies
- Mandate applicability to Federal award recipients??
- Next revision to Yellow Book 2006/2007 timeframe...will likely enhance internal control testing minimum requirements

# NCURA Region 1 RADG Spring Meeting

# Questions?