



NCURA
REGION VI
TUNDRA TO TROPICS

Education & Professional
Development

Lunchtime Learning Series: An Introduction to Audits

with Stephanie Gray, SRI International
and Beata Najman, University of California,
Berkeley

February 13, 2025 | 12 noon

General Information

- Session is recorded, will be posted
- Mute, when not speaking – you are encouraged to actively participate
- Use the chat function
- Complete the evaluation
- See our website at ncuraregionvi.org



Introductions

- **Stephanie Gray, MBA** is currently the Senior Manager of the Business Assurance Services at SRI International. Stephanie holds a CPA (Certified Public Accountant, licensed in Texas and Oklahoma), CIA (Certified Internal Auditor), and CISA (Certified Information System Auditor), and brings over seventeen years of experience in the Aerospace and Defense Industry and over twenty-five years in the auditing profession. She received her MBA degree from Pepperdine University and BBA in accounting from Southwestern Oklahoma State University
- **Beata Najman, MBA, CFRA** is the Director of Contracts & Grants Accounting at the University of California, Berkeley. She has over twenty-three years of research administration experience, and was previously at the University of California, Irvine and the University of California, San Francisco.



Why are Audits Conducted

- **Financial statement credibility** - To provide an independent opinion on whether a company's financial reports accurately reflect their financial position
- **Risk mitigation** - To identify potential risks and areas of weakness in a company's financial controls, helping to prevent fraud and errors.
- **Legal compliance** - To ensure a company is adhering to relevant accounting standards and legal requirements mandated by regulatory bodies.
- **Stakeholder confidence** - To give stakeholders assurance that the financial information presented is accurate and reliable.
- **Internal control assessment** - To evaluate the effectiveness of a company's internal controls and identify areas for improvement.



Types of Audits

- **Compliance audits** – performed by government regulatory auditors, and internal and external auditors, and examine compliance with laws, regulations, and contractual agreements. Audits done by the IRS, or by the bank as terms of a loan, are examples of compliance audits.
- **Operational audits** - often performed by internal auditors and examine internal controls and entity performance.
- **Forensic audits** – conducted to investigate potential fraud or financial irregularities. This involves detailed examination and analysis of financial records and transactions.
- **Financial statement audits** - performed by external auditors, who must be CPAs, and examine compliance with applicable reporting frameworks, such as GAAP and IFRS.



Financial Audit Focus Areas

- General management
- Internal controls (access rights, segregation of duties, reconciliations, cut-off procedures, etc.)
- Accounting systems
- Review of the quality of single audits
- Allowable costs/Cost Principles
- Award cash management and payment testing



Review Areas

- Salaries and fringe benefits
- Timekeeping
- Procurement, suspension and debarment
- Equipment management
- Consultants
- Subrecipient monitoring
- Participant support
- Indirect costs
- Program income
- Proposal pricing

Improper Payments

Any payment that should have not been made or that was made in an incorrect amount including an overpayment or underpayment, any payment to ineligible recipient, for ineligible good or service, any duplicate payment, any payment for a good or service not received, and any payment that does not account for applicable discounts.



What Can We Do to Prepare for an Audit?

- Policies in writing
- Website updates
- Well defined roles and responsibilities
- System access approval process and separation of duties
- Internal controls
- Monthly ledger verification process
- Personnel records and approvals
- Effort reporting/payroll confirmation
- Equipment management and timely equipment inventory
- Timely correction of errors
- Record retention





COSO Components and Suggested Guidance

Monitoring

- 1) Management reviews supporting documentation of allowable cost information.
- 2) Flow of information from Federal agency to appropriate management personnel.
- 3) Comparisons made with budget and expectations of allowable costs.
- 4) Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.

Information & Communication

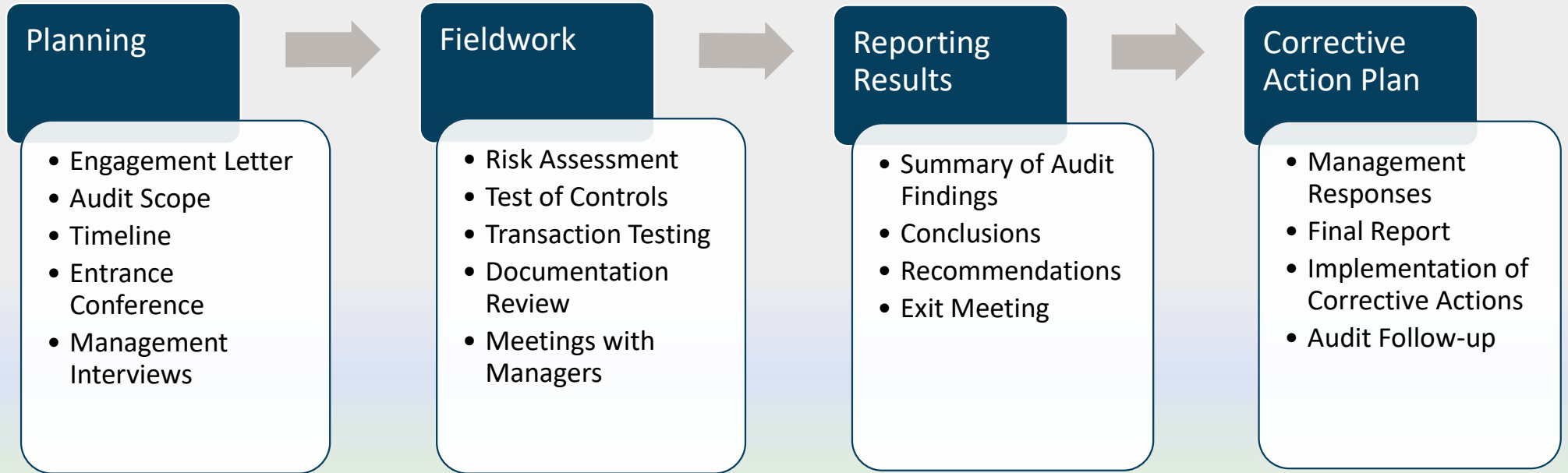
- 1) Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.
- 2) Establishment of internal and external communication channels on activities and costs allowed.
- 3) Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed. Interaction between management and staff regarding questionable costs.
- 4) Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed and allowable costs under Federal awards.

Control Activities

- 1) Accountability provided for charges and costs between Federal and non-Federal activities.
- 2) Process in place for timely updating of procedures for changes in activities allowed and cost principles.
- 3) Computations checked for accuracy.
- 4) Supporting documentation compared to list of allowable and unallowable expenditures.
- 5) Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- 6) Adequate segregation of duties in review and authorization of costs.
- 7) Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.



Audit Process





Frequently Asked Questions in an Audit of Sponsored Awards

- Most recent Uniform Guidance Audit
- Current Negotiated Indirect Cost Rate Agreement
- Overall organizational chart and other applicable organizational charts
- Written policies and procedures regarding delegation of authority to legally commit the organization (i.e., approval for proposals, acceptance of awards and amendments)
- Written policies and procedures that describe the sponsored projects budget revision/amendment process
- Written policies and procedures regarding sponsored projects budget and expenditure monitoring
- Written policies and procedures that describe cost transfers/expenditure reclassifications between projects or awards
- Written policies and procedures related to expenditure approval and competitive bidding
- General ledger chart of accounts/expense code list
- Written standards and procedures for determining the reasonableness, allocability, and allowability of costs charged to Federally-funded projects
- Written policies and procedures regarding the accounting treatment of unallowable direct and indirect costs
- Information regarding the system of personnel compensation used (e.g., hours worked, percent of time) for each category of employee (e.g., exempt and non-exempt/hourly staff)
- Project cost ledgers
- Detailed backup for selected costs



How to Ensure a Smooth Audit

- Notify the right parties of their roles and responsibilities as soon as you find out about an audit.
- Schedule a pre-meeting.
- Organize all materials and review them before submitting to the external auditors.
- Designate an audit liaison to act as a primary contact point for the auditors.
- Allocate sufficient resources to support the audit process.
- Organize documents in an easy-to-follow format and readily accessible.



How to Ensure a Smooth Audit

- Ensure timely response.
- Openly communicate with the audit team throughout the process, including any potential issues or concerns.
- Understand the audit scope and objectives clearly.
- Be aware of relevant regulatory changes and accounting standards that may impact the audit.
- Approach the audit with a collaborative mindset, actively assisting the auditors in their work.
- Promptly review any audit findings and develop corrective action plans to address identified issues.



Communication



Key Point to Remember When Communicating With An Auditor

- When communicating with an auditor, be honest, transparent, clear, concise, and responsive by providing all necessary information promptly, addressing and concerns directly, and asking clarifying questions when needed.

Avoid the Following When Communicating With An Auditor

- Avoid defensiveness and stick to factual answers within your expertise, while maintaining a professional and respectful attitude.
- Avoid withholding information.
- Avoid guessing or making assumptions.



Common Issues Identified in Audits

- Lack of adequate documentation to support costs (2 CFR 200.302 (b)(3))
- Failure to perform and document monitoring and oversight activities of subrecipients, and/or expenditures charged (2 CFR 200.332)
- Overcharging indirect costs
- Unallowable costs
- Failure to obtain prior approval before rebudgeting (when prior approval is required)
- Use of participant support funds for other costs without prior approval
- Inaccurate reports. Time and effort reporting, including inconsistent application of requirements across all funding sources, and time charged across all sources.
- Matching, Level of Effort, and Earmarking. Insufficient match funds, in-kind volunteer hours not reviewed.
- Eligibility. Inaccurate determination. Program participant did not meet eligibility requirements.



In the News



- The GAO found that \$1.17 trillion of federal award funds spent from 2017-2021 were linked to severe and persistent single audit findings.
- The GAO also found that 213 findings reported in 2015 or earlier remained unresolved in 2021.
- The Health and Human Services, Office of Inspector General found that NIH did not consistently ensure that recipients took corrective action on single audit findings.



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In Closing ...

- Thank you for attending!
- Please complete the evaluation.
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