



Research Audits

New Mexico Tech Business Office
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This document is continually being updated; we would appreciate any information and/or insight which would help us develop stronger policies for NMIMT's research community.

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I. Introduction

The purpose of this document is to provide an overview of the audit process and to define various types of audits.

Audits are a regular part of the administrative process at New Mexico Institute of Mining and Technology (NMIMT). The parties involved in the audit process know beforehand what is expected and what the products of the audit will be. Repeated exposure to a structured audit process promotes discipline in NMIMT's accounting practices.

External audits are reviewed by and coordinated with the Vice President of Administration and Finance, Director of Finance, and Controller.

II. Single Audit Concept

Congress enacted the Single Audit Act of 1984 to establish uniform audit requirements and an organization-wide audit process for state and local governments. Prior to this act, each Federal agency was responsible for auditing its own awards. These early audits were not coordinated, causing overlap by auditing some recipients multiple times, while other recipients were never audited. In 1996, the Act was amended to make the statutory audit requirements applicable to nonprofit organizations, therefore placing non-federal entities such as states, local governments, universities and nonprofits under the same audit process.

The Single Audit Act is implemented thru 2 CFR Part 200 Office of Management and Budget's (OMB's) [\(OMB\) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(UG\)Subpart F, Section 200.500](#) and requires a coordinated approach between all organizations that audit a university. A coordinated approach regarding audits of educational institutions results in gained economies through mutual reliance and avoids duplication of effort on various tests and procedures.

The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards. Auditors rely on the 2 CFR 200 Compliance Supplement issued by the OMB for guidelines to be used in testing Federal program compliance requirements. The supplement provides audit guidance for over 150 Federal programs identified by a CFDA (Catalog of Federal Domestic Assistance) number. A cluster of programs is a group of closely related programs that share common compliance requirements and are considered one program for audit purposes. The "Matrix of Compliance Requirements" identifies which of 14 types of compliance requirements may apply to a Federal program. It is then up to the auditor to develop audit procedures to test for compliance and issue a single audit report.

The single audit report includes:

- The financial statements (auditee's responsibility to provide);
- A schedule of expenditures of Federal awards (auditee's responsibility to provide);
- Auditor's opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards;
- Auditor's report on internal control and opinion on compliance pertaining to major programs;
- Auditor's schedule of findings and questioned costs;
- Auditee's corrective action plans; and
- A summary of prior audit findings which includes planned and completed corrective actions (auditee's responsibility to provide).

Most audit reports are a matter of public record and the audit results are transmitted to a database maintained by the Federal Audit Clearinghouse (FAC) via the annual submission of the SF-SAC

Form. Various Federal awarding agencies may access the audit results and evaluate if any audit findings impact their awards. And, if so, is the corrective action plan sufficient to address. The single audit report is intended to provide an opinion on universities' overall internal control over its Federal programs. It is a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding proper accounting and reporting of transactions, compliance with laws and regulations, and safeguarding assets. However, the single audit is not intended to provide detailed audit coverage of all the Federal awards or provide detailed financial information for individual awards. To do so would be cost-prohibitive.

III. Audit Purpose

The purpose of a financial audit (regarding direct or indirect charges) is to determine the following four factors:

A. Allowability

Allowability refers to costs, direct or indirect (F&A) that are appropriately charged to a sponsored project for reimbursement purposes. Allowability is determined by the terms of the governing sponsored agreement or by cost principles established by the Federal government in the UG. For example, the UG specifically defines certain types of expenses (e.g., alcohol, lobbying or entertainment) as unallowable. Other costs may be unallowable per the specific terms of an award (e.g., unapproved foreign travel or equipment costs). By definition, these types of expenses are unallowable. Auditors are always alert to the possibility that unallowable costs might have been charged. As a result, they may devote considerable energy to testing specific transactions to see if they fall into an unallowable category.

A cost which is unallowable for a sponsored project may still be an appropriate expense for NMIMT. For example, alumni activities are considered a type of appropriate NMIMT activity. Alumni expenses, however, are unallowable for overhead reimbursement purposes; i.e., they may not be charged to the government indirectly.

B. Allocability

Allocability is defined as a cost allocable to a particular cost objective (i.e., a specific function project, sponsored agreement, department, etc.) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Allocability is not the same as allowability; an otherwise allowable cost (e.g., salary or travel) may be unallocable to a particular FUND if the project supported by that FUND did not benefit from the costs.

C. Reasonability

A cost may be considered reasonable if the nature of the goods or services acquired or applied for reflect the action that a “prudent person” would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

An auditor may legitimately question a cost that is clearly allocable and not otherwise unallowable if, in the auditor’s judgment, the cost exceeds what a reasonable person would have paid in similar circumstances.

D. Consistent Treatment

Consistent treatment denotes that similar expenses must be treated the same in similar circumstances.

Auditors question but do not disallow costs. If auditors identify financial transactions that they believe to be inappropriately classified, unreasonable, unallocable, or unallowable, they will question that transaction. Final decisions about the ultimate allowability of a questioned cost are made by a cognizant contracting official taking into account the auditor's report and NMIMT's response.

IV. Types of Audits

A. Property Control Audit

The purpose of a Property Control Systems Analysis (PCSA) audit is to ascertain if NMIMT's property control system is satisfactory to provide control, protection, preservation, and maintenance of all government property within the requirements of the *Federal Acquisition Regulations (FAR) 45.5, Defense Supplement to the FAR (DFAR) 245.5, OMB Regulations*, and all other applicable agency and contractual requirements. The audit is conducted by the Office of Naval Research.

B. Preaward Audits

Preaward audits are typically conducted by the Defense Contract Audit Agency (DCAA) and/or other sponsor auditors to verify the estimated costs submitted in large sponsored research project proposals. Audits may be desk or on-site. This audit involves proposal preparation staff and/or Principal Investigators (PI). Preaward audits may also involve human resources, purchasing, and fiscal personnel. Preparation for this type of audit normally entails accumulating cost documentation for all proposed direct costs.

C. Claimed Cost Audits

Sponsors may request their auditors to verify the allowability, allocability, and reasonability of direct costs that have been charged and billed by NMIMT, especially in connection with cost-reimbursable grants and contracts. Audits of claimed direct costs are most commonly carried out at the completion of the sponsored project when NMIMT has presented a final invoice to the sponsor.

D. Indirect Cost Audits

NMIMT recovers its Facilities and Administration costs (also referred to as either F&A costs or indirect costs) associated with sponsored projects through the application of indirect cost rates to sponsored project expenses. F&A costs represent a recovery of actual infrastructure expenses incurred in support of the sponsored function (i.e., General Accounting, Payroll, Property, Travel, Human Resources departments, etc.)

NMIMT annually prepares a proposal and incurred cost study to serve as the basis for negotiating a rate with the Office of Naval Research (ONR). DCAA audits these proposals and cost studies to advise the ONR on the allowability, allocability, and reasonability of proposed and incurred indirect costs.

E. Compliance and General Control Audits

Educational institutions are required to comply with a large and constantly changing array of governmental rules and regulations. Auditors of all types depend on NMIMT's internal controls to achieve compliance and periodically undertake separate audits to test the effectiveness of those controls. NMIMT's independent public accountants annually conduct a single federal compliance audit as required by the provisions of UG Subpart F: Audit Requirements Section 200.500.

F. Financial Statement Audits

Annually, the independent public accountants for NMIMT conduct audits to assess the accuracy and fairness of the University's year-end financial statements.