Sponsored Programs Internal Controls Policy

Policy Number: 600-024
Effective Date: April 3, 2007
Last Updated: April 3, 2009
Issuing Authority: Vice President for Research and Compliance
Responsible Office: Office of Sponsored Programs / Research Administration, Restricted Fund Accounting (or Grant/Contract Accounting once established by the university)

Purpose

To assist the management of Howard University and all related entities, business units, subsidiaries and affiliated organizations including, but not limited to, Howard University Hospital (hereinafter referred to collectively as "Howard University") to evaluate and assess internal controls (defined below) for sponsored programs. Internal controls for sponsored programs are incorporated into policy and procedure documents that guide university operations and are used by management in their respective units. This policy is a guide for how internal controls for sponsored programs can be reviewed on a periodic basis and is one part of the larger framework of internal controls at Howard University. The assessment and maintenance of the internal controls for sponsored programs is a continual process in which the research administration offices (OSP/RA, RFA, PASU, RETA, RCO, etc.), Howard University leadership, and the Office of the Internal Auditor (Internal Audit) assess the effectiveness of internal controls in these units.

Policy

It is the policy of Howard University to establish and maintain effective internal controls in order to govern and direct the fiscal oversight and management of the sponsored programs occurring at the institution. Howard University is committed to fostering an environment in which the processes and tasks of internal controls are embraced and continually monitored in order to promote good stewardship of the funding awarded to Howard University. Internal controls also assist Howard University in meeting its obligations to comply with the terms and conditions of sponsored agreements and grant awards. This policy is a part of the Howard University internal controls environment and is intended to address solely the internal controls in sponsored programs. While each of the areas highlighted in this policy has a separate policy, with its own internal controls designated therein, this policy provides the framework and principles of the internal controls policy and practices for sponsored programs at Howard University.

Policy Principles and Definitions

The commonly accepted definition of internal control is one that was created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO definition was approved and is used by the five major professional accounting standards boards, the American Institute of Certified Public Accountants (AICPA), the American Accounting Association (AAA), the Financial Executives Institute (FEI), the Institute of Internal Auditors (IIA), and the Institute of Management Accountants (IMA). According to the COSO, internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

Internal control is defined as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and

compliance with applicable laws and regulations." These three objectives should be represented in the institution's assessment of its internal controls and can be further illustrated as follows:

- **Effectiveness and efficiency of operations.** This objective represents general business objectives, and the economical and efficient use of, and the safeguarding of institutional resources.
- **Financial reporting.** This objective represents the accurate deliverance of external financial statements and reports, including interim and condensed financial data.
- **Compliance with laws and regulations.** This objective represents the institution's commitment to compliance with the required laws that govern the institution's business.

Additionally, the COSO identified five separate, but interrelated, components that comprise a system of internal controls. The five components are:

- **The control environment**
- **Risk assessment**
- **Control activities**
- **Information and communication**
- **Monitoring**

This document identifies how Howard University monitors its performance related to these objectives for sponsored programs.

Internal Control Assessment for Research Administration:

Internal Audit, with the assistance of the Office of Sponsored Programs/Research Administration (OSP/RA) and the Grant Contract Accounting office (GCA), periodically conducts assessments of the risk areas inherent in the sponsored program enterprise and prioritize these risk areas for monitoring. The assessments include the risks areas identified by internal and external audits and other sources. Research administrative offices, such as the OSP/RA, Office of Sponsored Programs/Post Award Services Unit (OSP/PASU), Research Compliance Office (RCO), and GCA, continually monitors and assesses the sponsored program administration procedures and performance measures. On a periodic basis, Internal Audit conducts reviews of specific sponsored program administration processes and provides independent and objective analyses of the control activities as well as insight into potential financial and compliance risk. Internal Audit will communicate its findings to research administration management, the Vice President for Research and Compliance, and to others deemed appropriate by the Internal Auditor.

A review of internal controls typically assesses a combination of quantitative or qualitative metrics.

Quantitative Assessment Measures

The Management Reporting Policy lists several reports designed to provide management with metrics that may signal compliance and financial risks. These metrics assist Internal Audit when performing risk assessments. Examples of reports that may help provide insight into management's internal control over sponsored program procedures are listed below. This list is illustrative of the types of internal controls monitored through the auditing process. It is not necessary for each metric to be audited or reviewed annually, nor is the list exhaustive of the measures that can be reviewed. This list is provided as an example of metrics that may be measured or reviewed on a periodic basis. Additionally, management may decide to use a metric, or a combination of metrics, listed below to set internal performance goals.

Pre-Award Reporting Measures:
- Average number of days between the receipt of the PI/PD's proposal in final form and the submission date of the proposal.
- Number of proposals submitted to OSP/RA by receipt date (e.g., prior to 5 day deadline, 4 days, etc.)

Post-Award Reporting Measures:
- Percentage of effort reports completed in a designated timeframe.
- Percentage of subrecipient A-133 audit certifications completed in a designated timeframe.
- Average number of days to set-up an award.
- Total number of cost transfers per month.
- Average number of days to execute a subcontract agreement.
- Number of active projects past their expected end dates.
- Number of late financial reports.
- Number of revised financial reports.
- Average accounts receivable balances for sponsored projects.
- Average number of days for outstanding accounts receivable.
- Number of technical reports submitted by the respective due dates.
- Number and amount of budget overruns (could be presented by expense category, PI, department, etc.).
- Number of revised letter of credit reports.

Note: In addition to the measurements listed above, other performance metrics such as those listed in the Management Reporting Policy (UNDER DEVELOPMENT) may also be used to assess internal controls.

OSP/RA and GCA may use these reports to assess the performance of and adherence to standard operating procedures (SOPs) and to determine their office's as well as the policies' effectiveness. Internal Audit may use these reports during a review to gauge management's responsiveness to control activities.

Qualitative Assessment Measures:

Internal Audit also reviews qualitative measures in order to assess the internal controls. The qualitative assessment may be performed to identify more specific areas of compliance risk. Typically, these more detailed measures are not quantified into a data/numeric format. As such, a reasonable sample may be taken from a total population for the measures developed and, then, reviewed on a case-by-case basis.

Examples of qualitative assessment measures are listed below:

- **Records Retention:** The federal government has strict guidelines regarding the retention of sponsored program records. OMB Circular A-110 states that sponsored program records must be maintained for at least 3 years from the date that the final financial report is submitted to the sponsoring agency (see Records Retention Policy for details). In order to assess compliance with this requirement, a sample of files may be selected from a listing of sponsored projects that have been closed for between two and three years. The sample may be tested for the presence of the award file,

effort reports, purchase card reports, the project file located in GCA, and any other award documentation needed to reconstruct the award.

− **Research Expenditure Review:**   The federal government has specific regulations outlining allowable and unallowable expenses that are chargeable to a grant.   OMB Circular A-21 and Howard University Policy for Direct and Indirect Charging outline the requirements of these regulations.   In order to perform the review, a sample of awards may be gathered and several expenses from these awards may be selected in order to test for compliance with OMB Circular A-21 and the Policy for Direct and Indirect Charging.   GCA maintains copies of expense transactions, as well as receipts, and should be able to produce supporting documentation for the expenses in order to perform an adequate review.   The review may allow the assessor to determine if the Policy for Direct and Indirect Charging is being followed when approving expenditures, and to determine if adequate supporting documentation is retained pursuant to the Records Retention Policy.

− **Cost Transfer Signature/Documentation:**   A large number of cost transfers or cost transfers not being completed in a timely manner may indicate a weakness in internal controls.   Cost transfers require supporting documentation and a certification from the requestor that justifies the appropriateness of the transfer.   The NIH Grants Policy Statement (12/03) states that "[t]he transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee, consortium participant, or contractor.   An explanation merely stating that the transfer was made 'to correct error' or 'to transfer to correct project' is not sufficient."   In addition to requiring sufficient documentation (e.g., specific account numbers, dates and description of the expenditures, and dollar amounts of the expenditures), Howard University requires cost transfers to be authorized by the GCA Manager before they can be processed.   Based on the total number of cost transfers, a reasonable sample may be selected and the certification, documentation, and signature approval may be reviewed for compliance.

− **Cost Transfer Timeliness:**   OMB A-21 and the NIH Grants Policy Statement establish the regulations to account for sponsored awards.   Because cost transfers can signal a breakdown in business processes or inadequate financial systems, it is desirable for cost transfers to be reviewed on a timely basis.   As such, the NIH Grants Policy Statement requires that cost transfers be processed within 90 days from the date the error was discovered.   Howard University requires cost transfers to be completed within 90 days of the date the expenditure was originally incurred.   The processing of the cost transfer should be completed in a timely fashion because sponsored programs require continual financial oversight and late cost transfers are a potential indicator that adequate financial oversight is not being performed.   As such, cost transfer forms may be reviewed for the approval dates, the posting date, and the original expenditure date to assess if transfers are completed within 90 days of the expenditure date (and may require a review of supporting documentation).

− **Cost Sharing Agreements:** Cost sharing is defined as the portion of the project or program costs not borne by the sponsor.   Once the application or proposal is funded by a sponsoring agency, Howard University is required to provide the cost sharing resources outlined in the proposal, whether mandatory or voluntary, as well as the same financial accounting and fiduciary oversight for the cost sharing resources as it does for the sponsoring agency's funds.   The Department Chair and the College Dean, where applicable, are required to approve all cost sharing agreements.   Documentation of such approval should be maintained in the award file.   Additionally, all cost sharing agreements are to be provided to the Associate Vice President for Sponsored Programs (AVPSP) in a shared file

created for all cost sharing agreements. Cost sharing accounts will be set up by GCA to account for the shared funds. At the end of the award, the cost sharing component must be fulfilled and accounted for in the appropriate cost sharing accounts. In order to test for compliance, a reasonable sample of on-going or terminated awards where a cost sharing arrangement was established may be selected. The selected awards may be reviewed for 1) the appropriate cost sharing approval documentation, 2) a determination that the cost sharing account was being used, and 3) verification that the cost share obligation was met by Howard University.

− **Effort Reporting:** Employees must certify the amount of time spent on each sponsored program as a percentage of their total expenditure of effort (as effort is defined in the Faculty Workload Policy). Each semester, all faculty and professional staff must certify that his or her salary charges have been distributed to the appropriate accountGCA administers the effort reporting process. A reasonable sample of awards may be selected and the effort reports submitted by the employees with salary charges to the project may be reviewed. The effort reports may be reviewed for a signature by the employee (and/or an employee's supervisor) and the employee's actual salary (as evidenced by the employee's official appointment document in the employee's human resources file) may be compared to the payroll information for the time period, and any changes in effort may be reviewed to ensure that the effort report matched the payroll data. Once the actual effort charged is determined, the award file may be reviewed to determine if the project's proposed effort was materially different from the actual effort provided. A material difference is a change from the proposed effort of greater than 25%. Howard University uses a web-based effort reporting system in which personnel are responsible for maintaining the time that was spent on a project. The system can be accessed via http://effort.howard.edu.

− **Subrecipient A-133 Certification Letters:** For subcontracts that include any federal funding, Howard University requires a review of its own files and information that is filed with the Federal Clearinghouse to determine if there are audit findings associated with the subrecipient institutions. For organizations that are subject to OMB Circular A-133, Howard University assesses the subrecipient institution's compliance with A-133 audits and addresses any A-133 audit deficiencies that are identified. For organizations that are not subject to OMB Circular A-133, Howard University assesses the organization's annual audit report and addresses any audit deficiencies that are identified. *See* Howard University Subrecipient Monitoring Policy for more detail. *See also* OMB Circular A-133. For any A-133 deficiencies that are identified, documentation of the resolution is maintained by Howard University. Based on the total number of awards with subcontract agreements, a reasonable sample is reviewed to verify that the A-133 audit certification requirements were met.

− **IRB/IACUC/BioSafety/Radiation Safety Protocol Approvals:** If a project involves human or animal subjects, bio-hazardous materials, or radiation, the Principal Investigator/Program Director (PI/PD) must obtain approval from Howard University's applicable institutional review committees. Documentation of the approved protocol or exemption must be received by OSP/RA before the award is set up and expenses are charged. A reasonable sample of awards may be selected based on the total number of awards that require institutional committee approval. The dates of approval or exemption may be reviewed for compliance with the Howard University Institutional Committee Approvals Policy.

− **Signed Conflict of Interest Forms:** The PI/PD and all key personnel must complete a Disclosure of Financial Conflict of Interest Form for all sponsored projects before the award is set up and before expenses are incurred. In addition, many sponsors, including the National Institutes of Health, may

require documentation of financial conflict of interest review before an award is given. For multi-year projects, the disclosure forms must be recertified on an annual basis for the duration of the project period. Using a reasonable sample based on the total number of awards at Howard University, awards may be reviewed for confirmation that the Conflict of Interest forms were signed, that the forms are being maintained in the award files, and that recertification is documented where appropriate.

Suspected Theft, Fraud, Misuse of Assets, or Misconduct:

On occasions, Internal Audit performs investigations of fraudulent activities at Howard University. All employees at Howard University should report actual or suspected theft, fraud, misuse, and/or misconduct to the appropriate authority, which may include their supervisor, the Research Compliance Officer, the Chief of Campus Security, the Office of the General Counsel, or the Internal Auditor. All claims will be handled in a confidential manner and information will not be made available to the general campus community unless sanctioned by the University General Counsel. Financial misconduct is a serious infraction and all actual or suspected cases of theft, fraud, misuse of assets, and/or misconduct should be reported.

Roles and Responsibilities:

Internal Audit: Internal Audit has the authority to perform internal control assessments of any business unit at Howard University, Howard University Hospital, and other organizations that receive Howard University funds or manage sponsored programs that are the responsibility of Howard University or Howard University Hospital. Internal Audit may conduct an assessment of the RCO, the OSP/RA and GCA business units to determine if sponsored programs are being administered properly and to confirm that management has implemented adequate internal controls through its SOPs.

Office of Sponsored Programs:
- **Research Compliance Office (RCO):** RCO will work with Internal Audit to review and monitor research compliance, which may include leading and/or supporting specific audit/compliance initiatives. As necessary, RCO may assist in investigating and addressing issues of non-compliance.

- **Office of Sponsored Programs / Research Administration (OSP/RA):** OSP/RA is responsible for the administration of sponsored programs at Howard University. OSP/RA uses the performance measures listed in the Internal Controls Policy along with the additional specific performance measures listed in the Management Reporting Policy **(TO BE DEVELOPED)** and its own internal management measures to continually monitor the efficiency and potential risk of their enterprise.
- **Grant Contract Accounting (GCA):** GCA is responsible for the financial accounting and reporting of sponsored programs. RFA-OSP/GCA management obtains performance information about their business processes using the Internal Controls Policy, as well as reports generated using the Management Reporting Policy **(TO BE DEVELOPED)** and its own internal management measures to continually monitor the efficiency and potential risk of their enterprise.
- **Office of Sponsored Programs/Post Award Services Unit (OSP/PASU):** OSP/PASU is responsible for facilitating sponsored program related transactions (e.g., hiring, purchasing, accounts payable, and travel). OSP/PASU management obtains performance information about their business processes using the Internal Controls Policy, as well as reports generated using the Management Reporting Policy **(TO BE DEVELOPED)** and its own internal management measures to continually monitor the efficiency and potential risk of their enterprise.

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- **Office of Sponsored Programs/Research Education and Technical Assistance (OSP/RETA):** OSP/RETA is responsible for providing training to the Howard University research community. This office is an important part of the sponsored program internal controls process because much of the training is focused on compliance.

Related Policies:

- Financial and Management Reporting
- Records Retention Policy
- Direct and Indirect Charging Policy
- Subrecipient Monitoring Policy
- Institutional Committees Approval Policy
- Effort Reporting Policy
- Cost Sharing Policy
- Cost Transfer Policy
- Faculty Workload Policy

Forms and Links:

- OVPRC Website http://ovprc.howard.edu