Why We Pre-audit

The Pre-audit Process

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Accounting documents which correct or change posted entries to sponsored program accounts require extra attention due to federal regulations surrounding the timeliness of charges and allowable costs.

> Sponsored program accounts include projects funded by federal, state and local governments in Indiana, foreign (international) governments, industrials, foundations, societies, universities, and Purdue Research Foundation funds managed by Sponsored Program Services (SPS), as well as federal appropriations, industrials and joint transportation research funds managed by the various Schools/Colleges.

Adjusting and correcting entries are targets for federal audits and potential cost disallowances. To assure that such corrections and/or changes are appropriate, documents are reviewed by an individual with experience in sponsored program management (the pre-auditor) prior to entry into the accounting system.

At one time, these documents were routed through Sponsored Program Services (SPS) for approval. A subsequent process delegated SPS approval authority to selected "pre-auditors" in the Business Manager organization. This guide outlines the pre-audit process, procedures for becoming pre-auditors, and the process review necessary to assure and preserve the integrity of the pre-audit process.

Which Documents are Pre-audited

The focus of the pre-audit process is on documents which correct or change posted entries to sponsored program accounts. Each college/school/administrative area has the ability to expand the scope of what is pre-audited as appropriate for that area. *At a minimum*, all:

- Journal Vouchers (JVs) (FV 50)

- Post-Personnel Activity Reports (PARs) and Revised PARs

Which include any entries involving Federal Appropriation and Sponsored Program funds that must be pre-audited and have affixed an authorized pre-auditor's signature before Accounting Services or Managerial Accounting Services enters the document into the accounting system.

PARs Audited by Managerial Accounting Services

PARs processed during the current PAR periods are *not* pre-audited within the

college/school/area unless they are revised. Post-PARs are 60 days after the end of the PAR period that make a change to cost distribution (or revised PARs) should be forwarded to the designated pre-auditor for the -college/school/area. PARs that are more than 60 days late but do not make a change are referred to as Late PARs and do not require pre-audit.

Effort Certifications

How effort is certified: The semester PAR is the certification for all staff who work on a sponsored program or federal appropriation.

Cost Distribution changes for all staff do <u>not</u> require pre-auditing until the PAR has been completed and certified, the cost distribution represents only an estimate of payroll distribution.

Additional Reviews and Approvals

In addition to the college/school/area pre-audit, other reviews and approvals may be required before a document is processed.

Managerial Accounting Services must authorize PARs which require:

- Approval for post-PAR period adjustments

- Approval for revised PAR period adjustments

- Approval for adjustments of less than five (5) percent effort

Pre-auditors Qualifications, Authority, Recommended Staffing Levels

This guide outlines what pre-auditors need to know and provides the process for requesting pre-auditor authority for an individual. Pre-auditors perform a critical function, assuring compliance with University rules, regulations and policies and with federal cost allocation guidelines. As such, candidates must demonstrate a high level of knowledge and accuracy to qualify for pre-auditor authority.

Each college/school/area should identify and certify at least one (1) designated pre-auditor from their staff that hold Level 03 Fiscal approver roles. If a designated pre-auditor has not been certified within the college/school/area, documents requiring pre-audit should be forwarded to the Post Award Director in Sponsored Program Services (SPS)
for pre-audit approval or an authorized pre-auditor from another college/school/area.

colleges/schools/areas should monitor pre-audit document flow to   assure that enough pre-auditors have been identified to review and process documents within two (2) business days of receipt from the preparer. In no case should the quality of the pre-audit process be compromised, or a pre-auditor approved who is not sufficiently experienced and knowledgeable. Timely processing, although important, is less important than accuracy.

Sources Utilized in Preparation of This Guide

- Signature Authority Delegation Training

- Correcting Document Preparation Guide

- Cost Allocation Guidelines for Charges to Sponsored Programs

Roles and Responsibilities

"The Dean, Director, and Department Head are the chief administrative officers for their area of responsibility and, as such, are expected to manage all programs and funds within their areas of responsibility in accordance with University rules, regulations and policies. The financial responsibility of the Dean, Director, and Department Head includes an assurance that costs are allocated appropriately to the various funding sources under their control, including sponsored programs...."

"Directors of Financial Affairs and Business Managers have been assigned primary responsibility for assisting Deans, Directors, and Department Heads in fulfilling their fiscal responsibilities. Business Managers provide assistance in the determination of the allowability of costs and assistance in the determination of appropriate cost allocation techniques."

Each of the roles described below includes specific operational steps to insure accurate document preparation, review, routing and processing. *Implicit in each role and most important is the assurance from each staff member that there is an understanding and certification of allowability in terms of time period, prior approvals, etc., and assurance that the charge is not restricted by the funding agency.*

For information about the role of:

Preparer

- Assure funds availability.

  o Include the current available balance of sponsored program accounts on the document

- Prepare the JV/FV50 in accordance with the document preparation guidelines

  o Include project period and title of the sponsored projects

  o Reference document number, posting date, and document amount being corrected

  o If allocating the cost to multiple projects is the benefit determined without undue effort, benefit within the remaining time of the project, not just using up remaining balance or using unusual percentages

- Verify:

  o Debits equal credits

  o GL accounts, sponsored program or WBSE, and Internal order are appropriate/valid.

- Explanations (reasons for entries) must be clearly and carefully worded so that regardless of the passage of time, a person unfamiliar with the situation can fully understand why and how the error occurred, understand the corrective action, and find it appropriate. Remember that a correcting document is charging an expense which has already been certified to an account. The explanation must clearly address why the change is needed.

  o Assure proper backup documentation is available to establish that the cost is properly allocable to the project to be charged. This documentation normally includes the signature of the PI or someone with first-hand knowledge of the transaction.

  o Prepare document in accordance with the Cost Allocation Guidelines for Charges to Sponsored Programs; assure that allowability, allocability, reasonableness and timeliness have been carefully considered and the change deemed appropriate.

  o Assure that under no circumstances are costs moved to a federally sponsored or federally appropriated account solely for convenience or funds availability

  o Assure that the proposed transaction will correct the identified error

  o Correcting documents, with the exception of salary transfers generated from effort reports must be prepared and submitted as soon as the need for the correction is identified but no later than 90 days from the end of the calendar month in which the transaction appears on the project. A shorter correction period may be necessary near the project end date. Final financial reports are typically due to sponsors 30 to 90 days after the project end date. This requires that

all corrections be completed expeditiously.

- o In accordance with account management guidelines, closing adjustments are to be processed within sixty (60) days of expiration of the project

- o Obtain Principal Investigator certification when necessary. (Certification is not required on Unrestricted Voluntary Support accounts. The grant type for unrestricted voluntary support managed by SPS is VO and the expiration date for the grant is 12/31/9999).

- Obtain authorized signature of your Business Manager or other individual as appropriate

- Post-PAR approval request PARs received in the Managerial Accounting Services after the established deadline that change the cost distribution are considered post PAR changes and require an explanation and pre-auditor signature.

- Assure that the document is forwarded to the proper office in a timely manner for processing:

- o JVs/FV50s: FV50 documents are routed electronically for approvals in SAP. Utilize Journal Vouchers Quick Reference resources , which provides QRG's on creating, attachments, approvals & Workflow for FV50 process.

- o PARs: Federal Appropriations and Sponsored Program Funds processed during the current PAR reporting period – are routed electronically to Managerial Accounting Services

- o Post-PARs: Federal Appropriations and Sponsored Program Funds – notify the designated college, school, area, or regional campus pre-auditor to look for the PAR in their Pre-Audit list in SEEMLESS.

- o Revised PARs: Federal Appropriations and Sponsored Program Funds - notify the designated college, school, area, or regional campus pre-auditor to look for the PAR in their Pre-Audit list in SEEMLESS

- o If the above documents for Federal Appropriations funds, change activity from prior Federal fiscal year (Federal fiscal year is October 1 – September 30), then the change must have the approval of the Ag Accountant/Business Manager

Pre-auditor

- Assure compliance with the document preparation guidelines.

- o Include project period and title of the sponsored projects

- o   Reference document number, posting date, and document amount being corrected

- o   If allocating the cost to multiple projects is the benefit determined without undue effort, benefit within the remaining time of the project, not just using up remaining balance or using unusual percentages

- Assure that the explanation contains sufficient information to support the correction

- Assure that the document has appropriate certifications to establish allocability

- Verify document prepared in accordance with the Cost Allocation Guidelines for Charges to Sponsored Programs; assure that allowability, allocability, reasonableness and timeliness have been carefully considered and the change deemed appropriate

- Assure that under no circumstances are costs moved to a federally sponsored or federally appropriated account solely for convenience or funds availability

- Revised PARs will not be approved when:

  - o   An overdraft is being cleared from one grant to another grant (does not include sponsored programs within the same grant or voluntary support grants)

  - o   Expenses being moved to an expired grant that has a balance

- For Federal Appropriation funds, the Pre-auditor should assure that the document does not change activity from a prior Federal fiscal year (Federal fiscal year is October 1-September 30). Any such changes must have the approval of the AG Accountant/Business Manager.

- If the document requires a revision or correction, take appropriate steps to communicate the required revision and initiate the appropriate corrective action

- Provide feedback and explanation to the preparer about the required change

- Assure that the document is forwarded to the proper office in a timely manner for further processing

  - o   If no special approvals are required, forward the document directly to Accounting Services or Managerial Accounting Services

- Documents which should NOT be pre-audited:

  - o   Correcting documents which do not include any Federal appropriated AG or SPS funds

- o   PARs processed during the current PAR period

Business Manager/Agriculture (AG) Accountant

- Must authorize entries for federal appropriated funds *including delegation for*:

  - o   All correcting documents

Sponsored Program Services (SPS)

- Provides training for pre-auditors and those interested in becoming pre-auditors

- Responsible for an annual review of the pre-audit process and delegations assuring the integrity of the pre-audit reviews are upheld

- Makes the delegation of the pre-auditor authority

Accounting Services

- Reviews for authorized pre-auditor signature

- Approves document for processing

- Responsible for obtaining proper approvals

Managerial Accounting Services

- Reviews for authorized pre-auditor signature on post-PARs and revised PARs

- Approves post-PAR period adjustment

- Approves revised-PAR period adjustment

- Approves effort adjustments of less than five (5) percent

Delegation of Pre-audit Authority

Readiness Assessment

Before requesting Pre-auditor Authority a readiness assessment must be conducted by an individual who already holds a pre-audit delegation and must be recommended by the Director of Financial Affairs (DFA), and Director of Business Management. The Senior Director of Sponsored Program Services is the individual who makes the delegation of the pre-audit authority.

Resources to be utilized in conducting the readiness assessment include Signature

Authority Delegation Training, the Correcting Document Guide, Cost Allocation Guidelines for Charges to Sponsored Programs, and information listed in this document as well as other appropriate resources.

Approval Procedure to Name an Individual As a Pre-auditor; Procedure to Revoke Pre-audit Authority

SPS Pre-auditors are maintained in the workflow approvers table (ZFI_WF_APPROVERS). An approved Pre-Auditor is entered in as a Level 03 fiscal approver for a business area.

A list of authorized pre-auditors will be maintained by the Administrative Assistant to the Senior Director of Sponsored Program Services and placed on the SPS Web site.

Process Review

Sponsored Program Services (SPS) is responsible for coordinating an annual review of the pre-audit process and verifying that the list of pre-auditors is current. As each audit is completed, communication of the findings to the organizational areas reviewed will be provided along with feedback and appropriate training if necessary.

The Senior Director of Sponsored Program Services and the Business Management Senior Staff will be notified that the annual review of the pre-audit process has been completed. Organization areas reviewed and any significant findings will also be reported.