



The Pre-Audit Process

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Introduction to Pre-Auditing

This guide serves as a resource manual for the review and approval of correcting documents including Journal Vouchers (FV50), iLab corrections, cost distribution changes, PARS and CD-01's. This guide addresses issues regarding the importance of correcting documents, definitions of relevant terms, creation and review checklists, the roles of all individuals in the process and Pre-Audit process basics.

Importance of Correcting Documents

Federal agencies are concerned about the number of instances where costs are adjusted between, to or from sponsored project accounts after the original charges have been certified as correct and recorded on the University's accounting records. Identification and correction of errors, except for salary transfers generated from effort reports, must be prepared, and submitted as soon as the need for a transfer has been identified or in a timely manner.

Federal agencies allege that frequent, tardy, unexplained, or inadequately explained cost transfers or corrections, particularly where they involve projects with cost overruns or unexpended balances, raise significant questions about the propriety of adjustments as well as the overall reliability of the University's accounting system and internal controls. Timeliness of documents illustrates our commitment to supply quality accounting service to our customers or sponsors. The financial burden of audit disallowances will live with the academic unit responsible for the cost allocation decision.

University procedures are established in accordance with federal accountability requirements contained in Office of Management and Budget (OMB) [2 CFR 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule"](#), more commonly referred to as the Uniform Guidance (UG).

Why We Pre-Audit

Accounting documents that correct or change posted entries to sponsored program accounts or federal appropriation accounts require extra attention due to federal regulations surrounding the timeliness of charges and allowable costs. The final review by a Pre-Auditor allows questions to be asked and addressed before correcting documents are posted.

Definitions

Sponsored Program Accounts

Sponsored program accounts include projects funded by federal, state and local governments, foreign (International) governments, industrials, foundations, societies, universities, and Purdue Research Foundation (PRF) funds managed by Sponsored Program Services (SPS).

In SAP, these funds are recognized by WBSE Node 02, i.e., F.XXXXXXXXXX.02.XXX.

Federal Appropriation Funds

Federal Appropriations funds are given to specific federal government departments, agencies, and programs. These funds come with their own set of guidelines and reporting requirements. At Purdue University, these funds are provided to the Colleges of Agriculture (AG), College of Health and Human Sciences (HHS) and the School of Veterinary Medicine (VET) due to our Land Grant University status. They can be identified by the following Funds:

- 34xxxxxx or
- 34010000- Smith Lever
- 34010002/34010003- EFNEP fund
- 34010004- RREA
- 34510000- Hatch
- 34510001- Hatch Regional (multistate hatch)
- 34510002- Animal Health
- 34510003- McIntyre Stennis

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 that correct or change posted entries to sponsored program or federal appropriated accounts. All documents which include any correcting entries involving Federal Appropriation and Sponsored Program funds must be Pre-Audited and include an electronic authorized Pre-Auditor's signature as a part of electronic workflow into the accounting system. The document types are listed below.

- **Journal Voucher (JV)** - Non-payroll corrections made using T code = FV50* with Document Type SA. Electronic workflow will send the document to those in BA Level 03 for the given Cost Center on the document.
- **iLab Corrections** – Recharge center postings created via iLab should be corrected via iLab. This approval must be manually documented and added to the backup documentation in iLab. These corrections will also post to [Document Type JN](#). iLab corrections involving voluntary cost share can occur via Document Type SA outside of the iLab system.

- **Payroll Corrections**

- Cost Distribution (ECP IT27, IT14 or IT15)
- CD-01
- Revised PAR
- Late PAR
- Less than or equal to 5.01% with the recent changes

*Payroll corrections can be made using a JV but only as a **last resort** when the payroll system is not able to make the correction. See Team Content > Standard Content > HR and Payroll > [Statement of Payroll Charges](#) > Compensation Transactions NOT included in Statement of Payroll Charge – EXCEL for S&W or Fringe Benefit transactions not processed via the payroll system.

PARs processed during the current PAR periods via SEEMLESS are *not* Pre-Audited within the college/school/area unless they are revised. Late-PARs are 60 days after the end of the PAR period, whether they make a change to cost distribution (or revised PARs) or not, are available via SEEMLESS to the designated Pre-Auditor for the - college/school/area as well as Managerial Accounting Services. SEEMLESS does not electronically route for approval, rather Pre-Auditors must go in and select the PARs needing approval.

Effort Certifications

The semester Effort Report (PAR) is the certification for all staff who work on a sponsored program, federal appropriated or match accounts.

Cost Distribution changes for all staff do not require Pre-Auditing until the PAR has been completed and certified. The cost distribution represents only an *estimate* of payroll distribution until the certification has occurred.

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 late PAR period adjustments
- Approval for revised PAR period adjustments
- Approval for adjustments of less than five (5) percent effort

Pre-auditors Qualifications, Authority and 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](#)

[Pre-Auditor Training](#)

[Correcting Document Preparation Guide](#)

[Cost Allocation Guidelines for Charges to Sponsored Programs](#)

Roles in Financial Management

Programmatic

The chief administrative officers in each area have the responsibility to develop, operate, and maintain an organization that achieves maximum performance with the available resources at their disposal. They are expected to exercise prudent judgment in the expenditure of funds and the utilization of services. They are responsible for ensuring that all programs and actions conform to the appropriate University policies. As the chief administrative officers, Directors, Department Heads, Deans, Vice Presidents, and Vice Provosts should be familiar with University fiscal rules, regulations and policies, and should take steps necessary to ensure that they are followed. In many areas, Business Office staff are responsible for assisting administrative officers in fulfilling their fiscal responsibilities of budgeting, payroll, staff benefits, personnel, purchasing, accounting, and sponsored programs administration. However, Business Office staff are not authorized to make academic decisions or to commit funds other than those agreed to by the chief administrative officer, who has final responsibility for all fiscal aspects of their operations.

Fiscal Approval

The role of Business Office staff involved in the procurement process is to fulfill a treasury function, including certification of expense to ensure that allowability, allocability and reasonableness have been met. Meeting these tests requires not only knowledge of University, state, federal and donor requirements, but also the ability to make reasonable judgments given the facts and circumstances concerning the

transaction. Proper execution of delegation authority therefore requires a broad understanding of the context under which a transaction is occurring. Each of the roles described below includes specific operational steps to insure accurate correcting document preparation, review, routing, and processing.

NOTE: Implicit in each role 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.

Principal Investigator (PI)

Responsibility for setting the direction of research at Purdue University lies with the faculty. A principal investigator is typically a member of the faculty who bears responsibility for the intellectual leadership of a project. He/she accepts overall responsibility for directing the research, financial oversight of the funding, as well as compliance with relevant University policies, federal regulations, and sponsor terms and conditions of an award. This includes research contracts, grants, cooperative agreements, training or service projects, clinical studies, and other sponsored projects. The PI, or his designee, is normally the person with first-hand knowledge on how purchases benefit a project. For more details, see [Expectations of a Principal Investigator](#) on the Sponsored Program Services Training website.

Preparer

The preparer is responsible for pulling together all information needed to process a correcting document including original posting document, attaching back up documentation, funds availability, explanations of why the correction is needed, if the correction is allowable, allocable, reasonable, and timely. If the correction involves continuation accounts, the preparer should include details related to whether the continuation is competing or non-competing as well obtaining PI certifications when necessary.

For Journal Vouchers, the preparer should [Create Journal Entry](#) in SAP using tcode FV50 and document type = SA. They should Save Document without Initiating Workflow or Initiate Workflow. The Preparer should also attach any backup documentation using the [FBO3 – Storing Business Documents and Workflow](#).

The Preparer should never approve their own correcting documents.

See the [Correcting Document Review Grid](#) for more details on correcting document preparation.

Business Manager Reviewer

In most areas, Business Managers will review correcting documents before they are sent to the Pre-Auditor for final approval. Business Managers are responsible for double checking items on the [Correcting Document Review Grid](#) and ensuring that

explanations are clear so that a third party reviewing the document can understand the situation as well as reviewing all notes and required certifications are included. The Business Manager would then initiate the workflow so the Pre-Auditor will receive the document for review.

Pre-Auditor

Pre-Auditors perform a critical function, assuring compliance with University rules, regulations and policies with federal cost allocation guidelines. Only documents involving Sponsored Program accounts or Federal Appropriation Funds require Pre-Auditor approval.

See the [Correcting Document Review Grid](#) and the [Pre-Audit Process](#) for more details on Pre-Auditor expectations.

Managerial Accounting Services

Staff from Managerial Accounting are involved in the approval of Personnel Activity Reports (PARs). In this final review of PARs they will:

- Review for authorized Pre-Auditor signature in SEEMLESS or on a paper PAR
- Approve Late PAR period adjustments
- Approve effort adjustments for less than five (5) percent when variance code is selected
- Review adjustments that correlate to a change to the previously certified effort reported on a PAR (Revised PAR)

Ag Accounting/Business Manager

The Ag Accountant or designated Pre-Auditor must authorize correcting entries for Federal Appropriation Funds. These funds require some special considerations beyond corrections for sponsored program accounts.

Special Considerations: Federal Appropriation Funds

Federal Appropriation Funds are used by Colleges of Agriculture (AG), College of Health and Human Sciences (HHS) and the School of Veterinary Medicine (VET) exclusively. Included in this fund range are the Federal appropriations, which Purdue receives from the Smith-Lever and Hatch Acts.

The Ag Accountant/Business Manager is primarily responsible for pre-auditing correcting documents and post-PARs within the College of Agriculture on this fund range. Other individuals within Ag, HHS, and Vet with pre-auditor training may also approve correcting documents and post-PARs on behalf of the Ag Accountant.

When preparing correcting documents involving these funds, three “rules” must be kept in mind:

- **Divisionality** should be avoided. Divisionality represents transactions, which move expense between funds of different flavors. The College of Ag, HHS and

School of Vet classify funds according to three distinct missions: extension, research, and instruction. Because of matching considerations for the Federal appropriations and the distinct character of each mission, expenses should be moved among funds of similar character. For example, 21030000 (research general) funds should be used to clear an overdraft on a 46010000 account to accomplish voluntary cost sharing. Use of 21020000 or 21010000 funds in the same situation would not be appropriate unless the grant has been established for the purpose of instruction or extension.

- **Timing** - The Federal fiscal year is October 1 through September 30. Transactions that have been posted to one fiscal year cannot be moved after September 30. As part of the Federal year-end closing process, two system updates are run in October. The 9/31 and 9/32 updates are the last opportunity to make corrections before the Federal fiscal year closes and reports are submitted to U.S. Department of Agriculture (USDA).
- **Cost sharing** - Federal appropriations funds may not be used for cost sharing. Uniform Guidance prohibits matching Federal funds with Federal funds. This includes the Federal appropriations as well as Federal funds in the SPS fund 46010000.

NOTE: Any questions regarding Federal Appropriation Funds should be directed to the AG Accountant/Business Manager.

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 Senior Director of the area. 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, Pre-Auditor Training, the Correcting Document Preparation 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

Approval

Step 1	Senior Director or DFA completes Pre-Auditor Readiness Assessment with individual.
Step 2	DFA prepares a memo like Appendix A requesting pre-Audit approval and sends to Senior Director of their area. If request is for the Senior Director, their supervisor should make the request.
Step 3	Senior Director (of area) reviews and approves request memo electronically and submits for approval to the Senior Director of Sponsored Program Services.
Step 4	Senior Director of Sponsored Program Services reviews and approves request then sends to RQA for processing.
Step 5	RQA staff will complete the Fiscal Approver Template on the Fiscal Approver Changes SharePoint Site
Step 6	Fiscal Approver BA Level 03 will be updated in the workflow table by the Finance and Data Support Team as described below.

Workflow

SPS Pre-Auditors are maintained in the workflow approvers table (ZFI_WF_APPROVERS) by the Finance and Data Support team. An approved Pre-Auditor is entered into the table as a Level 03 Fiscal Approver for a Business Area (BA). This approver level is tied to a position. If there is turnover with the position that contains this level of approval, but the person in the position is *not* an approved Pre-Auditor, the situation should be managed via expectation. The employee should not approve documents for Pre-Audit scenarios.

A list of authorized [Pre-Auditors](#) will be maintained by RQA and placed on the SPS Web site.

Procedure to Revoke Pre-Audit Authority

In the rare event that a Pre-Auditors authority needs to be removed, the Senior Director should notify the Senior Director of Sponsored Programs. RQA staff will complete Fiscal Approver Changes on the [SharePoint Site](#) to remove the role from the position.

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 be reported.

Appendix A

Sample Pre-Audit Approval Memo

M E M O R A N D U M

To: Ken Sandel, Senior Director Sponsored Program Services

From: DFA, Senior Director

Re: Pre-auditor Assessment for X

This memo is to document that I met with X today, *Date*, to conduct a pre-auditor assessment. x had previously sent me X examples of documents that he had either reviewed for Pre-Auditor or were in process. We discussed those examples and reviewed the training opportunities discussed in this document. *(Include any other relevant discussions)*

After the meeting with x, I am comfortable recommending delegation of SPS Pre-Audit to him for the College of x.