

# *The auditors are coming!*

- Learn the MIT Audit Division's role in the Institute's governance structure and gain insight into what to expect when your DLC is selected for an audit.
- Hear about the ways the Audit Division contributes to a compliant research environment.
- Get the inside scoop on audit red flags and how to avoid them! Discuss a real-world research audit scenario.

*The auditors are here!*



# Today's Presenters



Mike Moody,  
Institute Auditor



Mike Bowers,  
Associate Director, Information Technology and Campus Audit Services



Kallie Firestone,  
Senior Compliance Specialist, Campus Audit Services

# Internal Audit at MIT

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**INTERNAL**

## Audit of Research at MIT

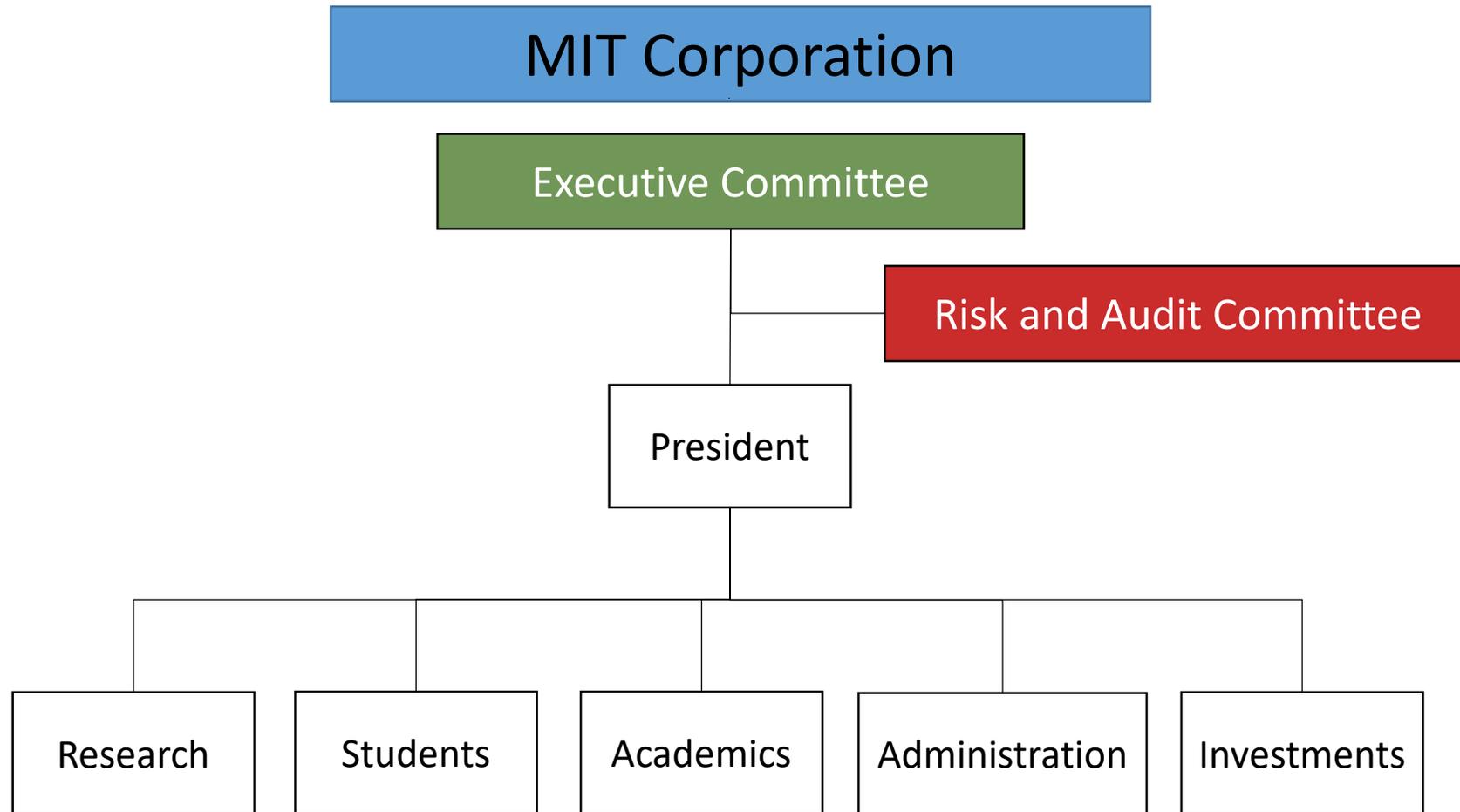


# Internal Audit at MIT



# MIT Governance

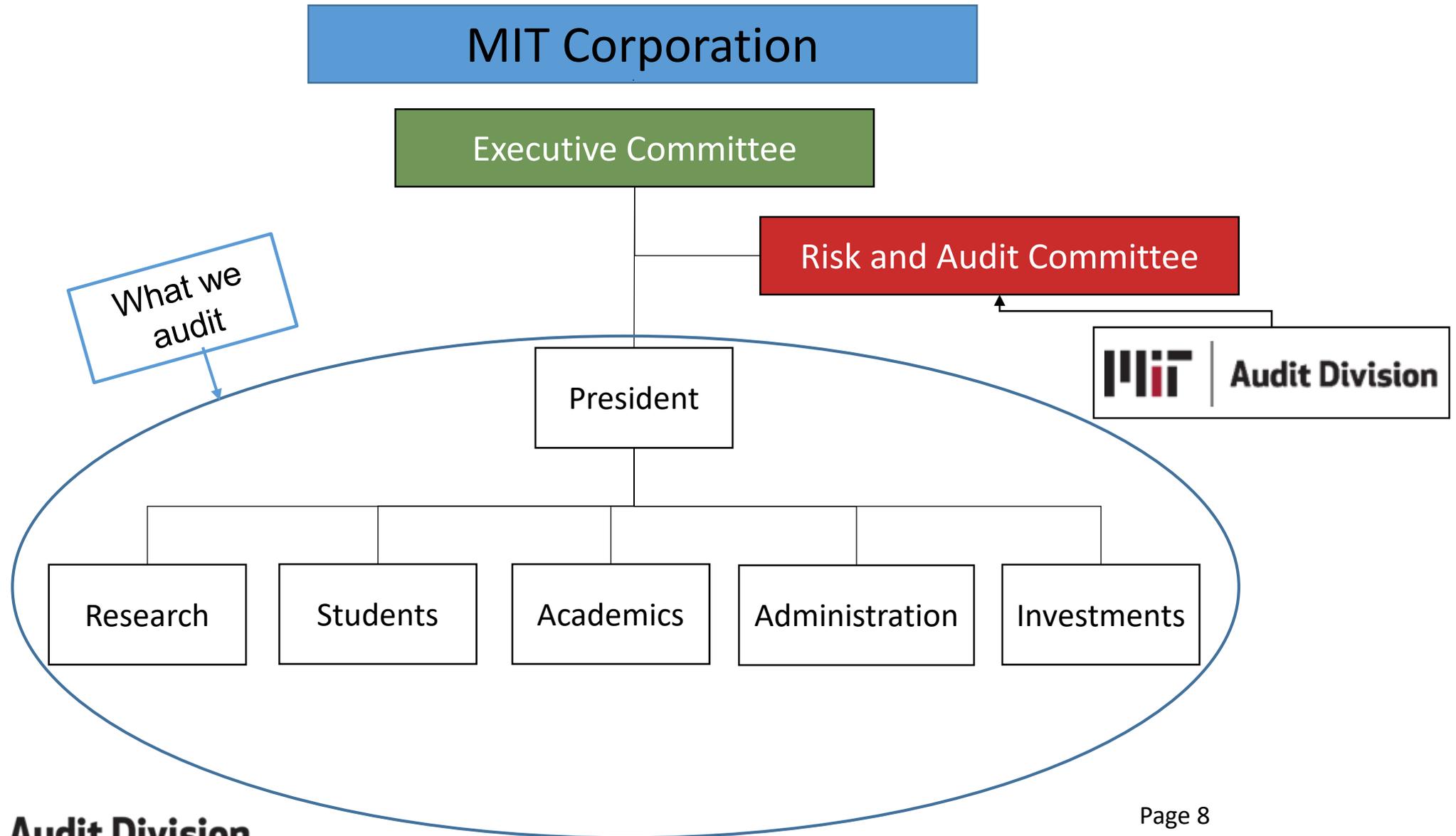
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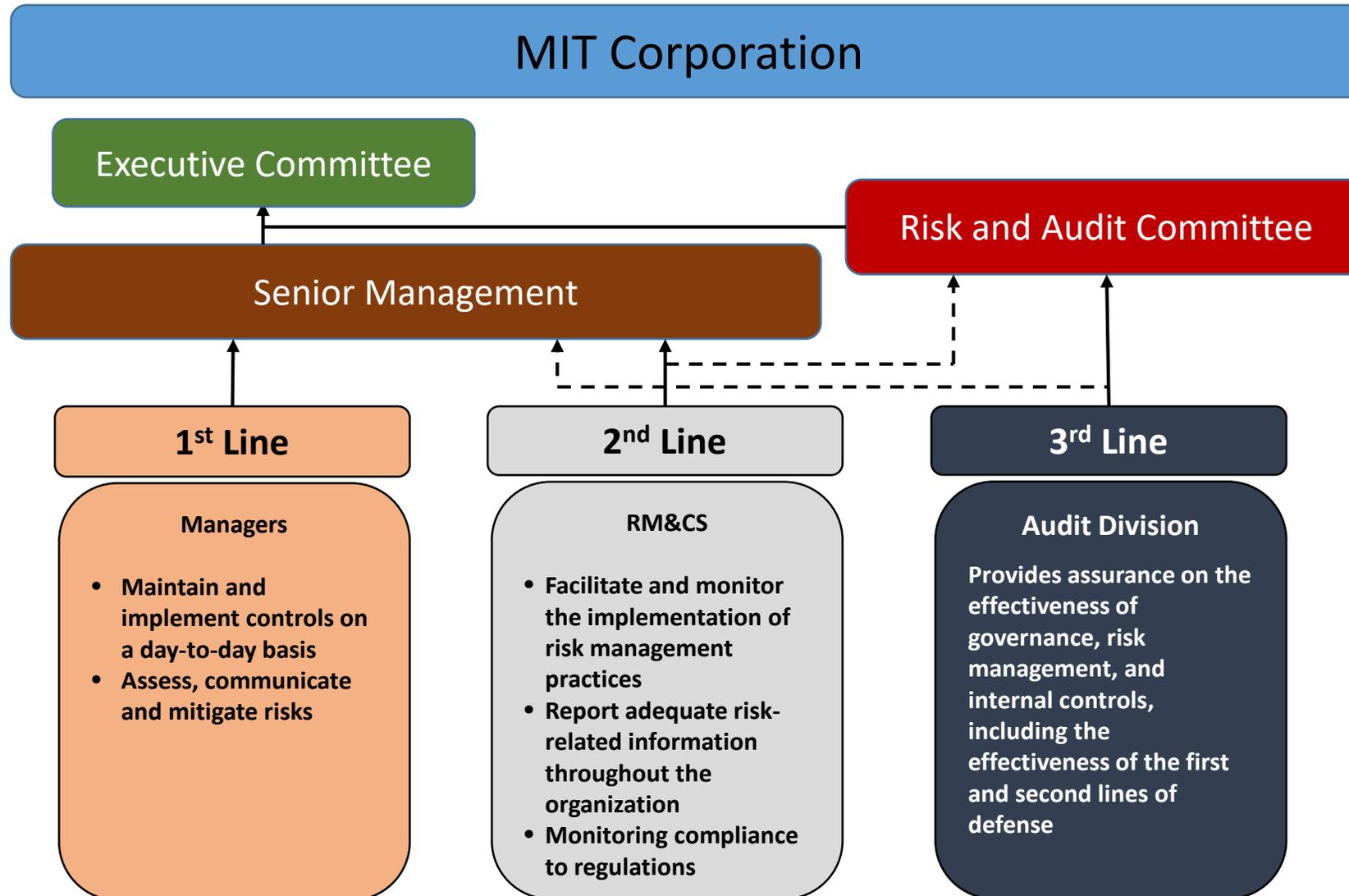
# MIT Governance



# MIT Governance



# Three Lines of Defense at MIT



## Risk Management & Compliance Services

## Audit Division

- Management team
- Guided self-assessment
- Assist managers in incorporating MIT-appropriate risk management and compliance actions into their Institute activities.



Can be directly involved in risk mitigation efforts, as well as have operational roles.

- Corporation
- Evaluate processes
- Provide Risk and Audit Committee and managers insight, offer recommendations for process improvements, inform decision-making.



Cannot perform any operational duties for the Institute or its affiliates.

# We DO

- Look at academic, research, and administrative processes to evaluate if these processes are working properly to control risk.
- Perform operations, information technology, financial and compliance audits and advising.
- Make recommendations to improve processes and encourage management to adopt these recommendations.
- Offer insight to assist MIT's managers as they develop new or improved processes – based on best practices, recognized standards, and our experience across the Institute.

# We DON'T

- Develop MIT's policies — that's the role of managers on campus and at Lincoln Laboratory.
- Implement the recommendations we make — that's also the role of managers on campus and at Lincoln Laboratory.
- Perform Institute-wide financial statement audits — that's the role of external audit firm PricewaterhouseCoopers.
- Define the Institute's risk factors or put processes and controls in place — that's the role of Risk Management and Compliance Services as well as managers on campus and at Lincoln Laboratory.
- Report to federal agencies to assure effective oversight of public funds — that's the role of the Defense Contract Audit Agency, Offices of the Inspector General, and other entities.

# Is internal audit unique to MIT?



- Boston College
  - Boston University
  - Brown University
  - California Institute of Technology
  - Columbia University
  - Cornell University
  - Duke University
  - Emory University
  - Harvard University
  - Northwestern University
  - University of Pennsylvania
  - Princeton University
  - Rochester Institute of Technology
  - University of Rochester
  - Rutgers University
  - Stanford University
  - Syracuse University
  - Tufts University
  - Washington University, St. Louis
  - Vanderbilt University
  - University of Vermont
  - Yale University
  - University of Washington
  - University of Virginia
- \* All Members of the IVY+*

# How We Select Our Audits

Each year, we choose which processes to audit by evaluating several factors:

- Input from management
- Risks to MIT
- Emerging challenges within higher education
- External forces

**Risk and Audit Committee approves our audit plan**

# How do audits work

- Collaborate with you to understand your high-level objectives and processes
- Evaluate the risks – safety, operational, behavior, financial, and compliance – that you face as you work toward these objectives
- Test the adequacy and effectiveness of the controls and processes you have in place to manage those risks
- We publish a report that includes an overall rating, a list of recommended improvements (if any), and your management action plan

Satisfactory - Needs Improvement - Unsatisfactory  
45.5% 45.5% 9%



# Standards of Audit Practice

## Code of Ethics and *International Standards for Professional Practice of Internal Auditing*

In 2016, an outside firm audited us and we received a top rating.



# Our Team

❖ 20 professional certifications  
❖ over 25 undergraduate/graduate degrees



Mike Moody



Mike Bowers



John Dvorak



Vesna Zaccheo



Martha Jane  
Gagnon



Michelle  
Jackson



Kim Ahern



Kallie Firestone



Carter Stubbs



Jie Jiao



Robin Irvin



Antwon Ward



Suwen Duan



Bob Monteith



Nichole Valois



Erin Coates

# For more information



## How can I prepare for an audit?

<http://audit.mit.edu>



### Audit Division

#### Our Services



Main  
Campus  
Services



Lincoln  
Laboratory  
Services

The Audit Division evaluates MIT's academic, research, and administrative processes and offers recommendations for improvement. We work for the MIT Corporation Risk and Audit Committee and with managers on campus and at Lincoln Laboratory. We perform audits and provide advisory services.



### Audit Division

# Takeaways

- Like you, we work for MIT and share your commitment to its mission.
- We look at academic, research, and administrative processes to evaluate if these processes are working properly to control risk.
- We make recommendations to improve processes and encourage management to adopt these recommendations.
- A **Needs Improvement** audit opinion is OK.

**INTERNAL**

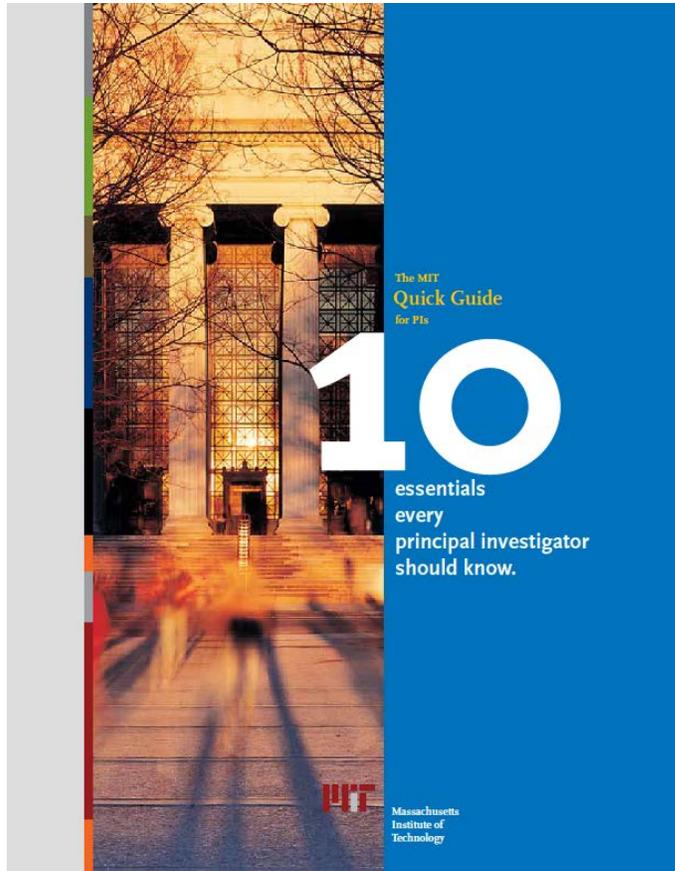
# Audit of Research at MIT



Audit Division

# How Can I Prepare?

## *The MIT Quick Guide for PIs*



### **10 essentials every principle investigator should know**

1. Individual Conflict of Interest
2. Cost Principles
3. Salary Certification & Administrative Costs
4. Equipment
5. Travel
6. Cost Transfers
7. Cost Sharing
8. Technical & Progress Reports
9. Research Involving Human, Animal or Biological Materials
10. Sub-Recipient Monitoring and Relationships

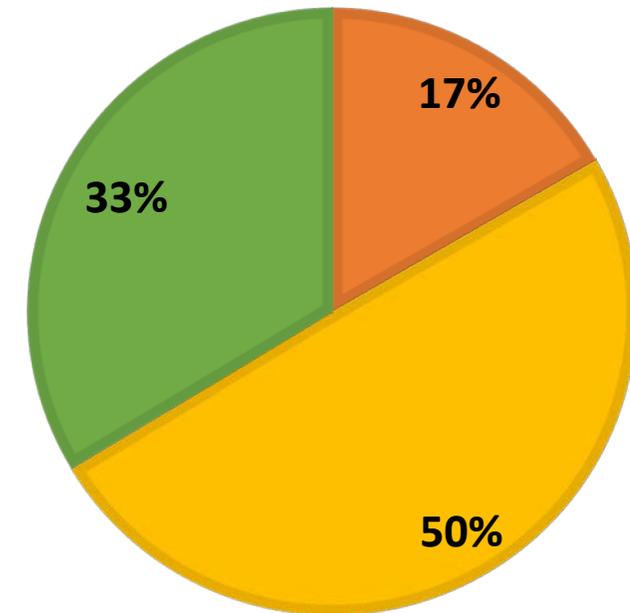


# DLC Site Visit Program (Formerly – RACP)

- Site Visits focus on DLC administration, with a primary focus on federally sponsored research compliance:
  - **Salary Distribution:** Are there sufficient steps to allocate salary costs to the sponsored awards?
  - **Forecasting and Account Management:** Are cost objects managed and monitored in an appropriate way (FRC)?
  - **Procurement:** Is there a method to purchase goods and services that support the mission?
  - **Service Centers Management:** Do service centers receive effective oversight?
  - **Gift Administration:** Are local processes sufficient to ensure fiduciary responsibilities (new FY18)?

PLANNED 2018 AUDIT EFFORT

■ Site Visits ■ Process Audits ■ Other Audits



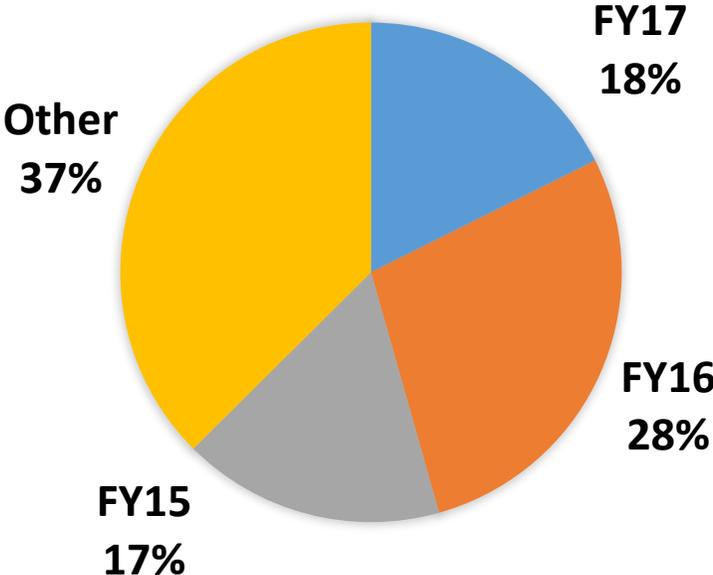
# Factors Used in Selecting Specific DLCs

## Risk Factors & Inputs

- Sponsored research volume
- Gift support volume
- Prior audit results
- Time since last audit
- Input from Institute management
- External trends
- Professional judgement

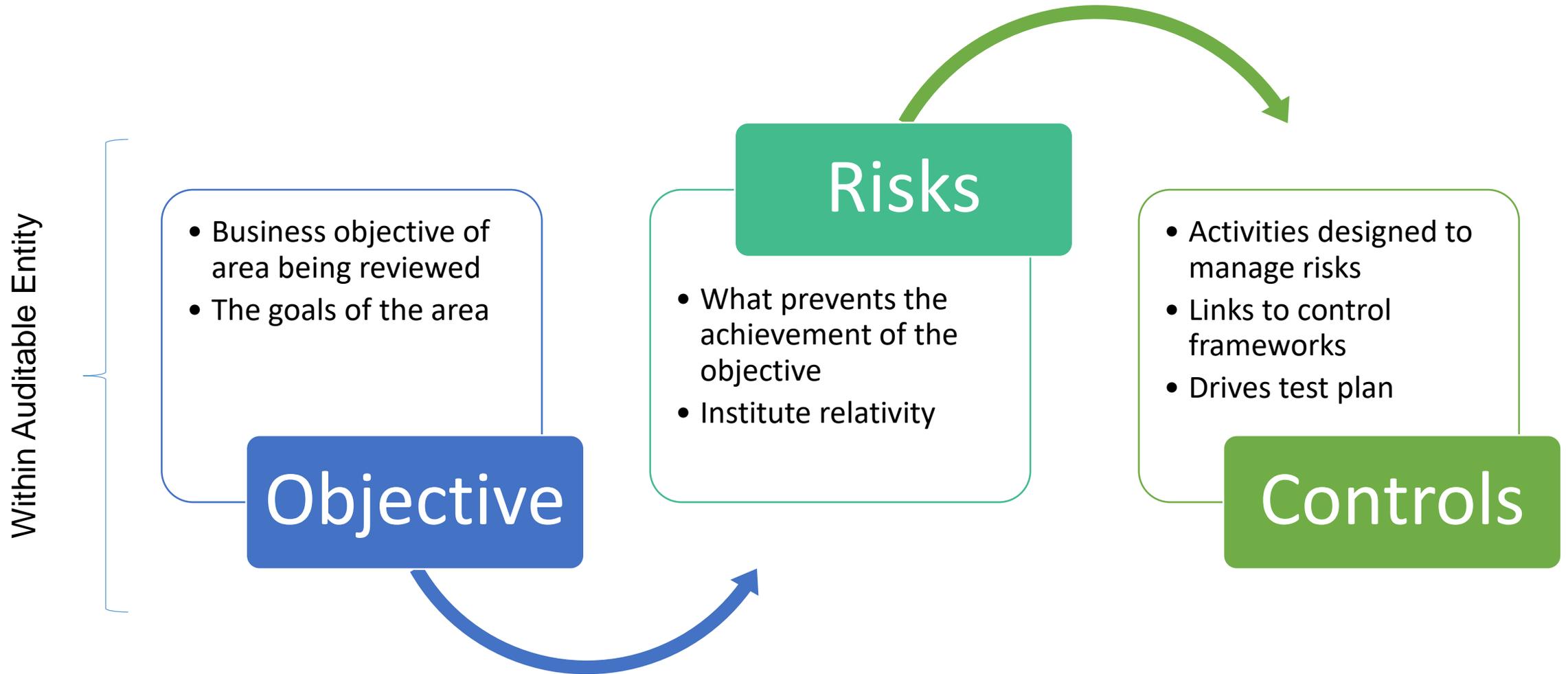
2018 Plan is for coverage of 22% of research volume (\$164M) -  
Visiting 8 to 10 DLCs

PLANNED COVERAGE BY BASE YEAR FY16  
SPONSORED RESEARCH VOLUME



Three year coverage represents approximately 1/3 of DLCs with 63% of sponsored research volume

# How we Work: The Essence of the Audit Engagement

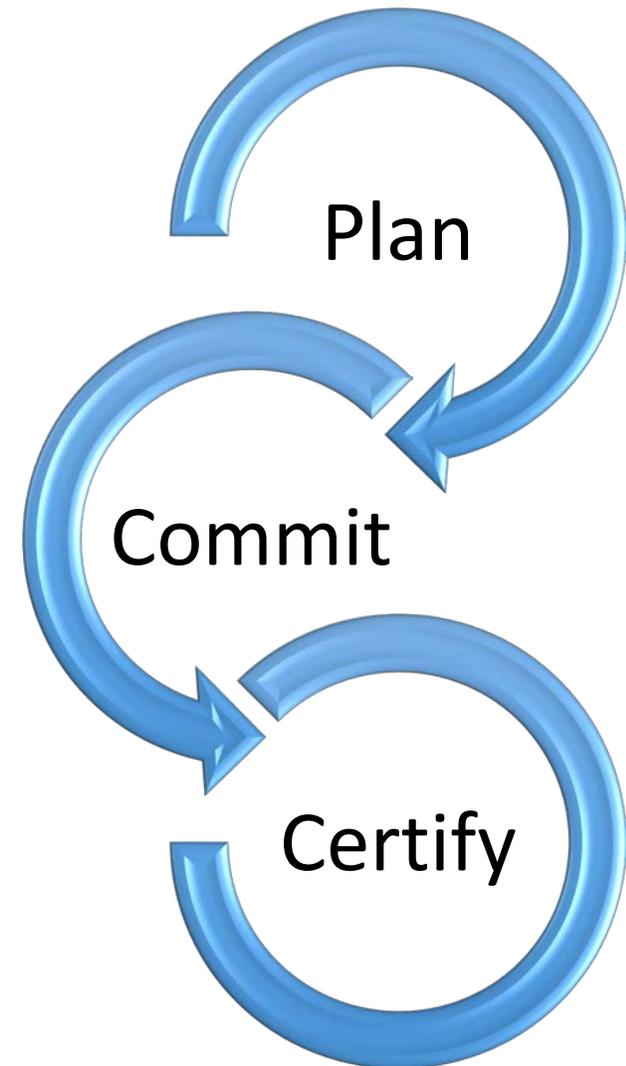


# Salary Distribution

Are there sufficient steps to allocate salary costs to the sponsored awards?

- The largest category of direct project expense at MIT
- Certification is our “invoice” for labor costs
  - PI determines level of effort to be committed by personnel
  - Salaries charged should be consistent with effort
  - Completed on a Quarterly basis (electronics system)
  - Certification by proxy should be supported

“It is Institute policy to have each Quarterly Salary Distribution Report (Quarterly DACCA) certified by an appropriate individual ... responsible **persons with suitable means of verification** that the work was performed...”

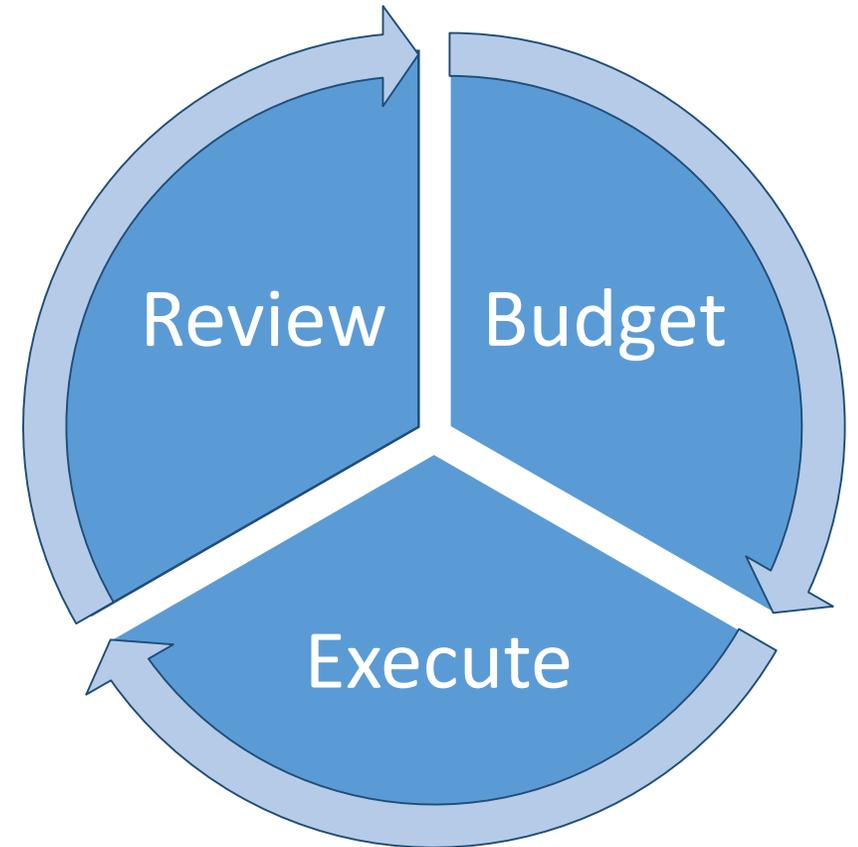


# Forecasting and Account Monitoring

Are cost objects managed and monitored in an appropriate way (FRC)?

- Regular and timely review of the Institute's cost objects is a key control activity
- Transaction Reports are reviewed to ensure that:
  - Overall financial status of project is understood
  - Costs are reasonable and applicable to the award or cost object
  - Significant variances or potential variances from authorized total budget are identified early

Methodology (procedures) for review should be clearly articulated and understood within the DLC



# Procurement

Is there a method to purchase goods and services that support the mission?

- *OMB Uniform Guidance Subpart E: Allowability of direct cost must be:*
  - Necessary and reasonable
  - Allocable
  - Consistently applied
  - **Adequately documented**

Can we see and understand the reasoning for a purchase and its allacability (benefit) to the award?



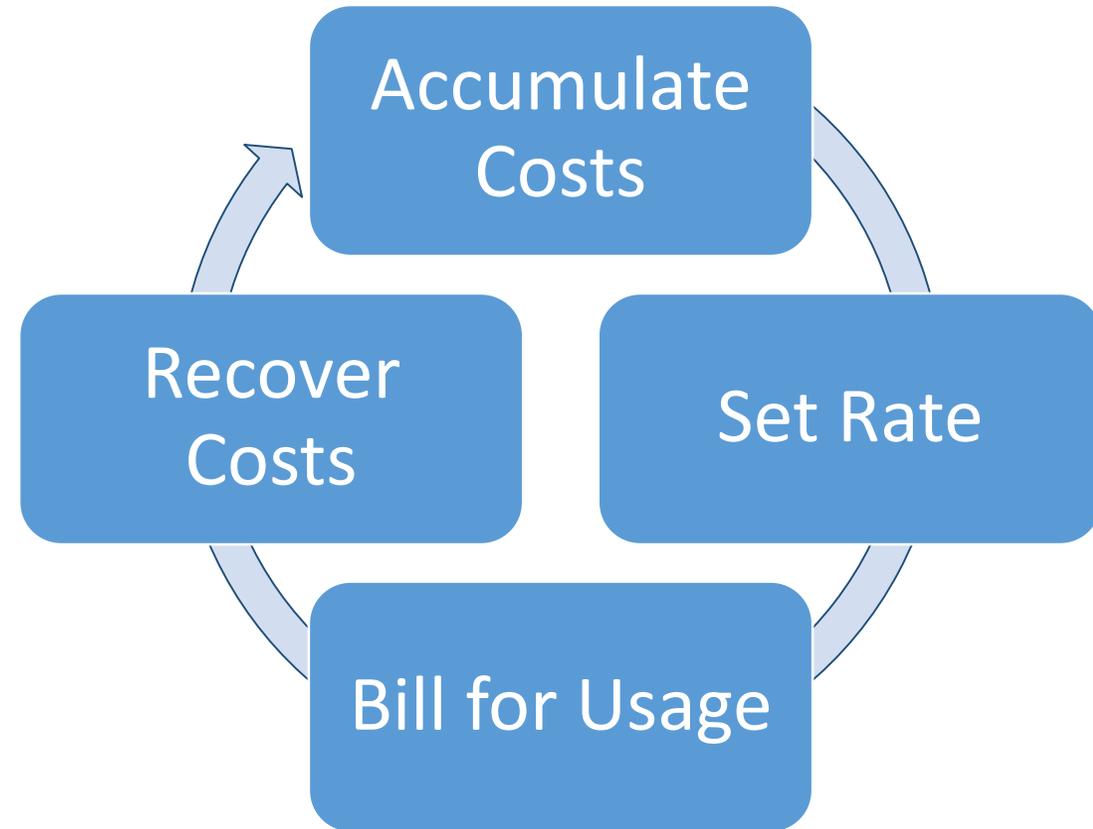
*These new regulations will fundamentally change the way we get around them*

# Service Center Management

## Do service centers receive effective oversight?

- MIT's Service Centers accumulate the costs of providing goods/services and bill these costs by means of a rate:
  - Be based on actual usage of the center
  - Not discriminate between Federally and Non-Federally funded programs
  - Be designed to recover not more than the aggregate cost of providing services, over a reasonable period of time

In addition to other requirements cumulative under/over billing at the end of each fiscal year to be within the greater of 1) 15% of annual Service Center expenses or 2) \$2,500



# Gift Administration

Are local processes sufficient to ensure fiduciary responsibilities (new FY18)?

- Restricted assets include gifts, pledges, trusts and remainder interests, and income and gains that can be expended but for which restrictions have not yet been met
- Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift

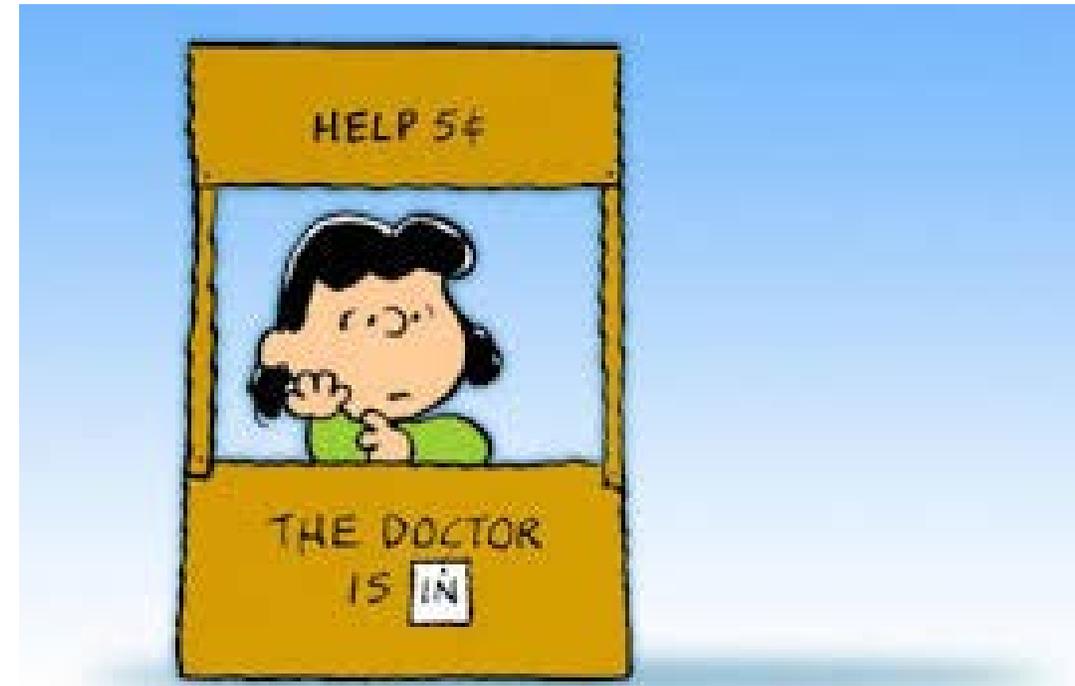
When we expend gifts or endowment distribution, we do so in the spirit of the donor's intent



Faculty Chair

# Important Tips for Administrators

- Do it correctly the first time ...
- Perform monthly review of all charges, and maintain evidence of the review
- Address questionable charges or situations early – seek advice from Assistant Deans, VPF (Sponsored Accounting), OSP or the Audit Division –
  - Ask yourself: “What would the sponsor say if I asked them?”
- Be aware of developing problems, such as overruns or cost-sharing shortfalls
- Develop a “culture of compliance” within your sphere of influence
  - Encourage good decision-making
  - Use good judgment, based upon principles



# Thank you



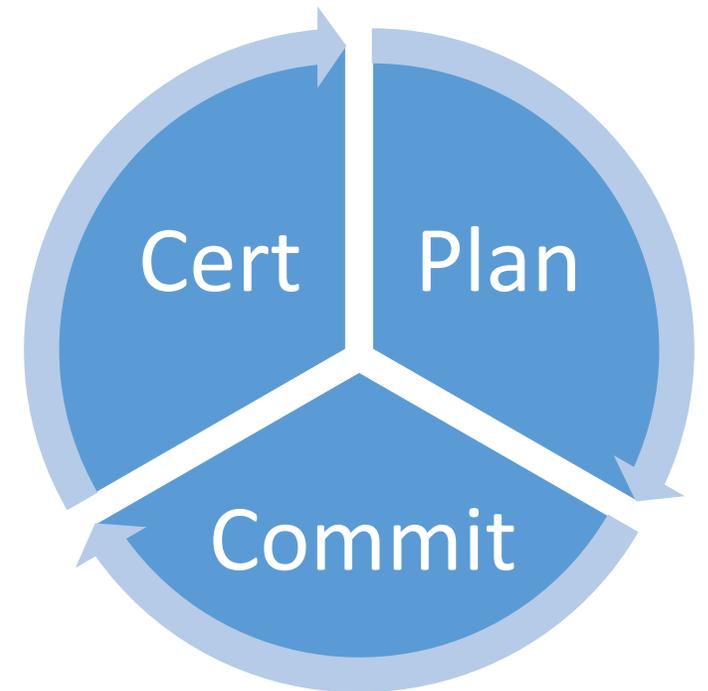
<http://audit.mit.edu/>



**Audit Division**

# Salary Distribution

- *MIT Guidance form OSP:* “The largest category of direct project expense at MIT is salary and benefits. The principal investigator (PI) is responsible for reviewing salaries charged to projects, and for validating and certifying percentages of salary charged to a project.”
- MIT policy from VPF: “It is Institute policy to have each Quarterly Salary Distribution Report (Quarterly DACCA) certified by an appropriate individual. One of the conditions of the federal regulations is that after-the-fact confirmation of the costs must represent actual costs and must be confirmed by "responsible persons with suitable means of verification that the work was performed...”
- Certification is our “invoice” for labor costs
  - PI determines level of effort to be committed by personnel
  - Salaries charged should be consistent with effort
  - Completed on a Quarterly basis (electronics system)
  - Certification by proxy should be supported



# Focus Example: Effort Certification

- Salaries charged should be consistent with effort; based on Institutional Base Salary rate
- Site Visit scenario #1
- A DLC has a significant value of salary costs charged to Federal and non-federal sponsored awards.
- There is one with a mix of sponsored awards and limited discretionary funds with three researcher with appointments in the lab.
- Per their procedures: the administrative staff meet with each PI bi-weekly to review the financial status and health of their projects. Effort follows.

Person	Federal	Non Federal	Discretionary
S. Smith	100%	0%	0%
J. Jones	22%	78%	0%
W. Wonka	34%	66%	0%

*What question do you think the “auditor” would have?*



# SPA Focus Example: Effort Certification

Some additional information...

- The effort of S. Smith (100%) was transferred to the cost object this month.
  - The original pay dates were 6 to 12 month earlier

