Research Administration Practices (RAP) Sessions

MIT Audit Division: Keys to Prudent Fiscal Management

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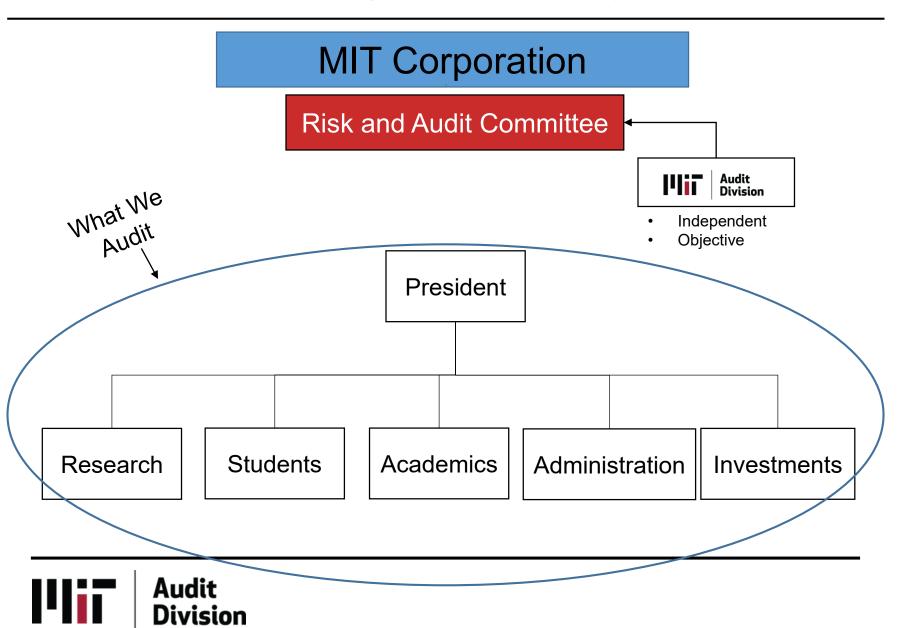
Keys to Prudent Fiscal Management

11/15/2023

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MIT Governance

MIT Corporation

Risk and Audit Committee

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- Independent
- Objective

What We Audit

President

Research | Students | Academics | Administration | Investments

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Mission Statement

The Audit Division analyzes and assesses governance, risk management and control activities to support the Institute in achievement of its mission.

As trusted advisors, we provide senior leadership, Institute management and the MIT Corporation Risk and Audit Committee reliable insight and meaningful recommendations to enhance decision-making.

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Our Team

❖ 22 professional certifications
❖ 26 undergraduate/graduate degrees

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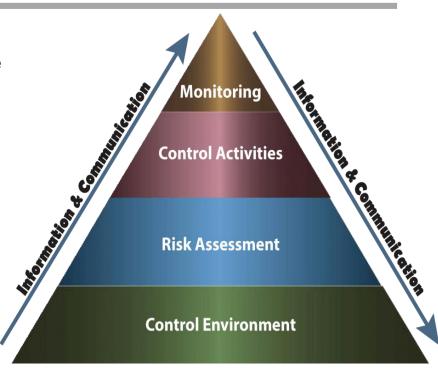Vietnam Le

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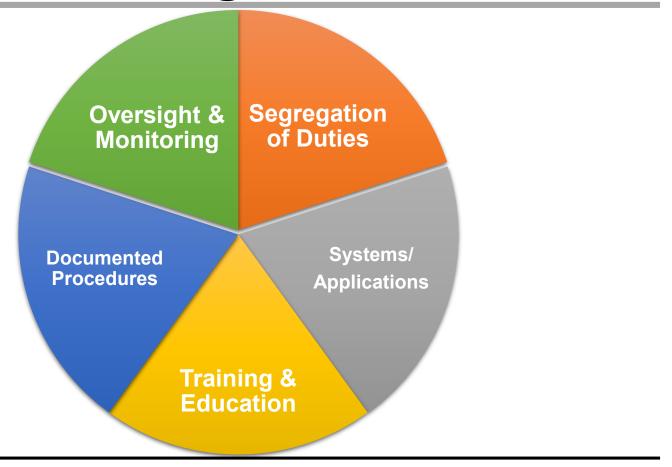
What are Internal Controls?

- A process designed by an organization, to provide reasonable assurance regarding the achievement of objectives in the following areas:
  - Reliability and accuracy of financial reporting
  - Compliance with applicable laws, regulations and policy
  - Effectiveness and Efficiency of operations

- Internal Controls help manage *__risk__*

- *People* are __not__ controls

  * Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*The **COSO*** *model defines internal control as "a process designed to provide reasonable assurance of the achievement of objectives"*

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Five Keys to Prudent Fiscal Management

Pie chart showing five segments: Oversight & Monitoring, Segregation of Duties, Systems/Applications, Training & Education, Documented Procedures

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Key 1: Oversight & Monitoring

A repeatable process to regularly and timely review activities, as well as communicate and resolve issues.

- Key control activity to ensure problems are detected early by management.

- Essential to ensure compliance (costs are allowable, allocable, consistently applied and documented).

- **FRC (Financial Review and Control) –** A person familiar with activity on an MIT cost object reviews monthly transactions on a cost object as part of the overall system of internal controls. Management provides necessary oversight of this activity.

- Management controls (approvals and verifications)
  - Review and approval of travel (Concur)
  - Review and approval of purchases (ProCards, B2P, POs, etc..)

Key 2: Segregation of Duties

Segregation of duties (SoD) - an internal control where at least two individuals are responsible for separate parts of a task. An individual should not have responsibility for more than one of the three transaction components: authorization, custody, and record keeping.

- Verifier and ProCard holder should not be the same person and verifier should not use ProCards for which they verify charges.

- Person performing statement review different from the person procuring on the cost object (unless secondary review is performed).

- Travel reports reviewed by secondary administrator.

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Key 3: Systems/Applications

Systems/applications process information based on specific inputs and authorizations.

- Established for specific processes within Institute procurement functions, i.e. paying faculty and staff, accounting for revenues, expenditures, and other dynamics depicted on the Institute's financial statements.

- Utilization of systems can improve the efficiency and effectiveness of the operations and enable easy sharing and management of information and data.

  - Adequately assign and update roles in the system (spend and commit)

  - eDACCA, Concur, B2P

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Key 4: Training & Education

Development of skills and knowledge that relates to specific useful competencies.

- To ensure consistent knowledge of process, procedures, regulations, and/or guidance.

  - Understanding of MIT (or University) Policies, Federal regulations, and other external guidance.

  - Knowledge of methodologies for procurement and review is articulated and understood throughout each Department, Laboratory, Center and Institute (DLCI).

- On demand online training

  - Introduction to Financial Review + Control

  - Salary Certification

Key 5: Documented Procedures

Policies and procedures (P&Ps) provide direction for day-to-day operations.

- Communicate expectations, processes, or procedures within DLCIs for consistency in application across functions and staff.

- P&Ps streamline internal processes, ensure compliance with regulations, and assist in decision-making.

  - Adequate termination procedures for employees and temporary staff (cancel Pcards or Travel cards, remove access)

  - Statement Review – 100% or Risk Based?

  - Salary Certification – Direct or Proxy; who/how monitored?

Common OIG Audit Findings

- Salary charges that lack adequate documentation to support that the work performed was related to the award.

- Cost Transfers without adequate supportive documentation.

- Equipment charged at end of the award period.

- Salaries charged for administrative employees who had no direct relationship to the award.

- Failure to support cost sharing claimed.

- Salaries for scientists who did not work on the award.

- Costs for meals, travel, supplies, etc.. that were not adequately documented.

- Costs of supplies, equipment and animal charges incurred in connection with other projects unrelated to these awards.

- Submission of false information on annual progress reports.

- Delinquent annual progress reports.

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Internal Controls in DLCIs – "Top 10"

What

1. Statement Review
2. Salary Certification
3. Requisition approval
4. Credit Card Verification
5. Travel voucher preparation and approval
6. Assigning system authorizations
7. Password controls
8. Systems back-up and patch management
9. Training: EHS, human subject research, research administration
10. Budget projections

Why

- Accuracy of data
- Reliability of information
- Proper authorization and accountability
- Proper documentation
- Segregation of duties
- Reasonableness of data
- Evidence of compliance
- Safeguarding information
- Safeguard assets
- Enhance quality of performance
- Provide "audit trail"
- Manage and conserve resources

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Fraud Triangle

Pressure: Motive or incentive

Rationalization: Justification for actions

Opportunity: Ability to carry out fraud

Pressure

Fraud

Rationalization   Opportunity

Detecting Irregularities

- **Financial Review & Control (FRC)**
  - Make sure costs are reasonable & applicable to the award or cost object.
  - Identify and resolve variances early.
- **ProCard charges**
  - Verified timely and question "suspicious" or "unusual" purchases.
- **Travel Costs:**
  - Review for unusual costs (that appear not business related and justified).
- **Segregation of Duties**
  - Secondary review of cost objects when SoDs are <u>not present</u>.
  - When person performing statement review is the same as person procuring on the cost object.

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Detecting Irregularities

Perform analysis of:

- Portfolio of cost objects and transactions
- Unusual patterns (purchase volume changes)
- Large purchases (over "typical" volume of general supplies i.e. hard drives, toner cartridges)
- Unexpensed travel
- Overruns on cost objects
- Duplicate transactions (i.e. RFPs)
- Review roles (at least annually)

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Risks of Non-Compliance-"3Rs"

Reputation:

- Potential reputational damage

Research:

- Hinders research progress

Repayment:

- Unallowable costs, penalties and fines

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
> 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.
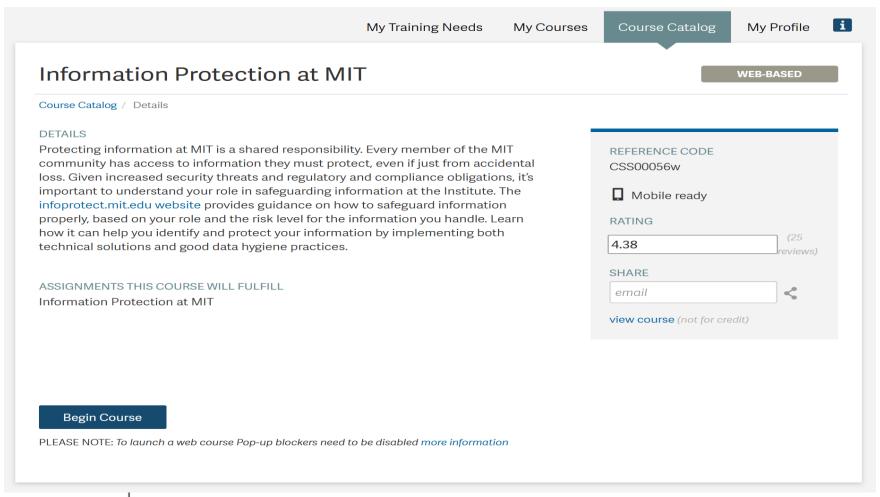
> Use good judgment, based upon principles.

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DLCIs Best Practice Recommendations

DLCIs should:

- Review and reinforce policy that card should be used by **cardholder only**
- Validate that all travel has been processed when an **employee or temporary employee gives notice**
- Notify VPF Travel and Card Services if the department identifies **suspicious activity**
- Notify VPF Travel and Card Services of all **temporary employee and student cardholder terminations**
- Review unexpensed transactions on a **monthly basis**
- Review travel reports on unexpensed travel transactions accessible through **wikis.mit.edu**. These reports provide data that is in the data warehouse but does not exist in SAP.
  - Link: https://wikis.mit.edu/confluence/display/DATAADMIN/Travel+Reporting

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Information Protection: Training Module

Information and Resources

- MIT Audit Division - https://audit.mit.edu/

- Office of the VP for Research - https://research.mit.edu/
  - Travel Policy and Post Trip Expense Reporting - https://vpf.mit.edu/500-post-trip-expense-reporting

- Research Administration Services (RAS) - https://ras.mit.edu/

- RA Support – ra-help@mit.edu

Policies and Procedures:

- Research - https://research.mit.edu/research-policies-and-procedures

- Research Compliance - https://research.mit.edu/integrity-and-compliance

- Record Retention - https://vpf.mit.edu/record-retention-guidelines

- Uniform Guidance - https://ras.mit.edu/grant-and-contract-administration/sponsored-programs-basics/ombs-uniform-guidance/uniform-guidance
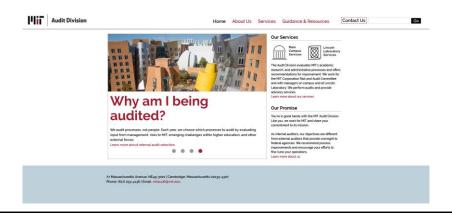
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Questions?

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