

# Compliance Basics

Presented by:

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OBFS Grants and Contracts

# Overview

- Background Information
- What is Compliance
- Common Compliance Issues
- Roles and Responsibilities
- Current Issues & Recommendations

# Learning Objectives

At the end of this session, you will be able to:

- Take appropriate measures to ensure compliance with the requirements the Office of Management and Budget (OMB) Circulars, university policy, and other agency specific regulations.
- Identify roles and responsibilities of the University, Principal Investigators, and Business Managers as related to sponsored award administration.

## Learning Objectives (cont.)

- Ensure that proper internal controls and sponsor guidelines are in place.
- Identify common compliance issues.
- Reference useful resources and websites.

Compliance Basics

# **BACKGROUND INFORMATION**

# Institutional Responsibility

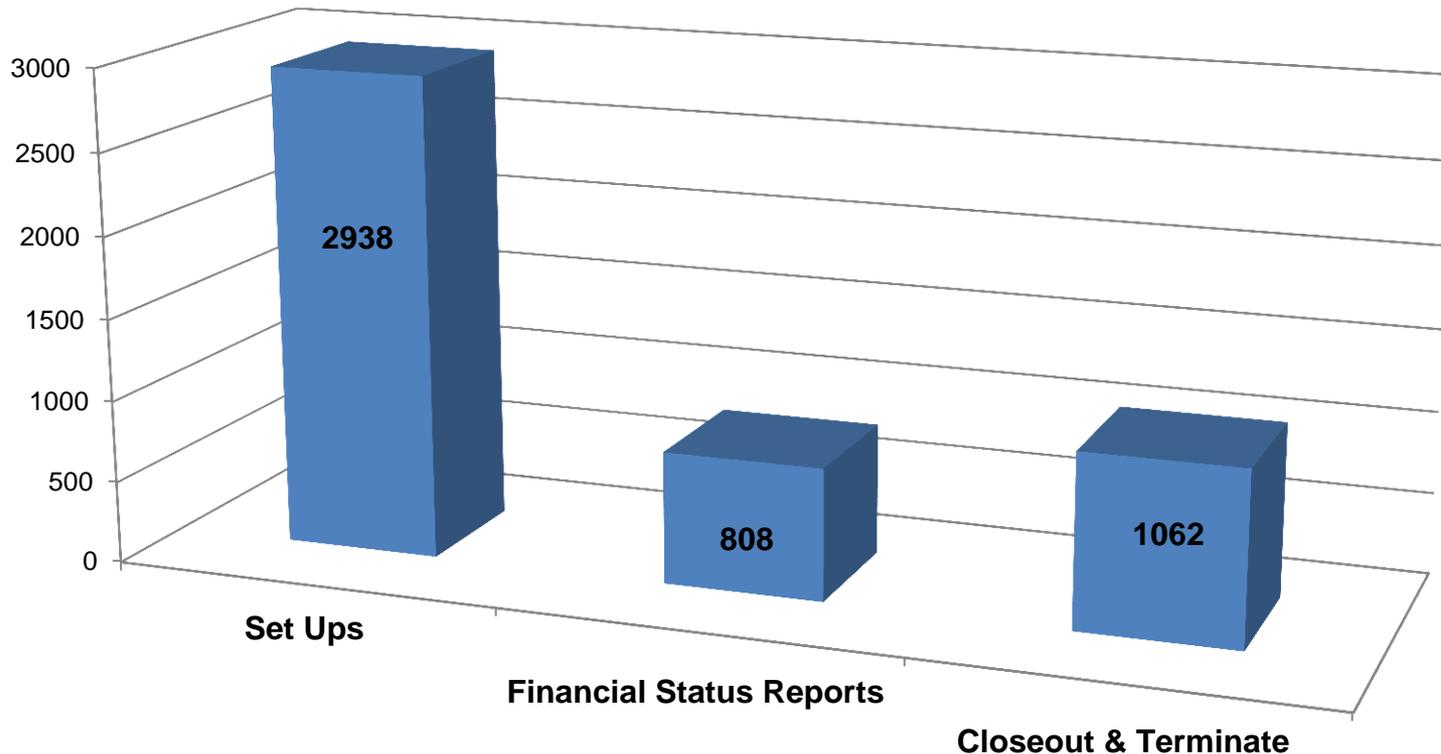
When we accept an award, we:

- Agree to adhere to all of the terms, conditions and guidelines.
- Have a fiduciary responsibility to spend the money in a reasonable and responsible manner.
- Must demonstrate adherence to the key cost principle (**R**easonable, **A**llowable, **A**llocable, **C**onsistent) for treatment of all costs.

# Cost Principles (OMB Circular A-21)

- Reasonable** A prudent business person would have purchased this item for this price.
- Allowable** The cost must be reasonable, allocable, and consistently treated to be allowable.
- Allocable** It can be assigned to the activity on some reasonable basis.
- Consistent** Like costs must be treated the same in like circumstances, as either direct or F&A costs.

# FY12 Award Setups, FSRs, & Closeouts



# Changes in Federal Landscape

- We monitor changes made by Congress and evaluate impacts to research.
- We review revisions to the OMB Circulars and its impact to the management of sponsored awards and single audit.

# Learning Activity One

Term	Definition
1. Reasonable	Benefits the project or award that was charged.
2. Allocable	Items not restricted by federal regulations or the specific grant/contract.
3. Allowable	Like costs in similar circumstances need to be charged directly or indirectly at the institution.
4. Consistent	Goods or services acquired and amount involved reflect an action a prudent person would have taken.

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# WHAT IS COMPLIANCE

# What is Compliance?

Compliance is the adherence to policies of the university, sponsor, and federal regulations.

# What is Compliance?

## Being Compliant Suggests:

- Effective management of funds
- Evidence of proper internal controls to safeguard funds & property
- Avoidance of fraud and institutional mismanagement of funds

# Importance of Compliance

## Risks for the Institution:

- Repayment of funds
- Loss of current and/or future funding
- Compromise expanded authorities
- Compromise institution's reputation
- Could be breaking the law

# Importance of Compliance

## Risks for the Institution (cont.):

- Unfavorable Audit:
  - High-risk auditee
  - Increased monitoring and oversight
  - Changes in processes and procedures
  - Loss of funding
  - Time loss

## Learning Activity Two

Which Circular sets the standards to test compliance for the annual single audit?

- A. OMB Circular A-21
- B. OMB Circular A-122
- C. OMB Circular A-133
- D. OMB Circular A-110

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# **COMMON COMPLIANCE ISSUES**

# Common Compliance Issues

- Lack of knowledge and understanding of OMB circulars, sponsors guidelines, and university policies
- Restricted funds spent on unallowed/unauthorized goods or services
- Improper or lack of supporting documentation for expenses and required matching dollars
- Payroll is based on budget figures instead of actual time worked

## Common Compliance Issues (cont.)

- Staffing programs with “contractors” to avoid paying employee taxes
- Lack of understanding of roles and responsibilities of institutional staff
- Inadequate staff training and education
- Out-of-date or nonexistent policies and procedures
- Inadequate resources

# Compliance Issues Specific to UIC

- Lack of adequate supporting documentation
  - Missing property management records-missing work papers and equipment not properly tagged
  - Tracking and documentation of cost shared obligations and expenditures
  - Supporting documentation for reports/bills prepared by department

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# **ROLES & RESPONSIBILITIES**

# Roles and Responsibilities

## Principal Investigators:

- Are accountable for the scientific and/or technical aspects and scientific conduct of the sponsored award.
- Oversee day-to-day management of the project's activities.
- Make budget allocation decisions.
- Are aware of expenditures charged to the sponsored award.
- Provide the required deliverables.

# Roles and Responsibilities (cont.)

## Business Managers:

- Understand the compliance requirements.
  - OBFS Policies and Procedures
  - OMB Circulars A-21, A-110, and A-133
  - Terms and conditions of awards
- Identify questionable transactions/prevent problems.
- Record transactions appropriately.
- Implement and adhere to internal controls.
- Assure complete and accurate recordkeeping.
- Protect the Principal Investigator (PI) and University.
- Contact GCO for any external sponsored award audits.
- Stay abreast of policy and regulation changes.

# Roles and Responsibilities (cont.)

## Compliance Unit - Grants and Contracts:

- Serves as the resource for:
  - Determination of allowable costs.
  - Appropriate accounting for transactions.
  - Interpretation of federal requirements—OMB Circulars A-21, A-110, A-133.
- Monitor compliance and assist with troubleshooting.
- Manage A-133 audit and other external audits.
- Develop and communicate sponsored project-related policies and procedures.
- Mitigate risk by conducting exception reporting regularly.
- Monitor external landscape.

# Learning Activity Three

Role	Responsibility
1. Principal Investigator	Implement and adhere to internal controls.
	Make budget allocation decisions.
2. Business Manager	Stay abreast of policy and regulation changes.
3. GCO – Compliance	Monitor compliance and assist with troubleshooting.
	Are aware of expenditures charged to the sponsored award.
	Assure complete and accurate recordkeeping.

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# **CURRENT ISSUES/OBSERVATIONS**

# Current Issues/Observations

**What are the most recent potential audit issues?**

- People and effort
- Grant management and routine monitoring
- Overdrafts
- Questionable spending patterns

# People and Effort

Issue	Recommendation
Adhering to K award requirements	Be aware of minimum effort requirement
Not spending effort according to proposed %'s	Revisit proposal before appointing/certifying
Tracking and reporting of salary-related cost sharing	Mandatory and voluntary committed effort must be tracked and reported (cost)
Bi-weekly staff paid from grants	Use Web Time Entry to approve time for biweekly staff working on grants
Frequent labor redistributions	Do not use grant accounts as holding account
Planning for gaps in funding	Prepare for expiration of awards

# Grant Management & Routine Monitoring

Issue	Recommendation
Hurry up spending at the end of the grant	Plan, review, and reconcile expenses
Unrelated expenses charged to grants	Review...review...review Remember the RAAC
Cost overruns throughout the life of the award	Budget what is needed for the project and spend accordingly
Huge problems with sub-awards (both as prime and sub-awardee) <ul style="list-style-type: none"> <li>• Non-performance, non-payment, quality, and quantity of deliverables.</li> </ul>	Adhere to sub-recipient monitoring guidelines <ul style="list-style-type: none"> <li>• Review expenses on invoices and ensure that deliverables are received from subcontractor prior to payment.</li> <li>• Pay according to terms of agreement</li> </ul>

# Grant Management & Routine Monitoring (cont.)

Issue	Recommendation
<p>Lack of documentation</p> <p>All business transactions related to sponsored projects must be documented, including:</p> <ul style="list-style-type: none"><li>• Maintenance of equipment</li><li>• Cost sharing</li><li>• Changes to key personnel</li></ul>	<p>Documentation includes:</p> <ul style="list-style-type: none"><li>• Receipts</li><li>• P-Card statements</li><li>• E-mails</li><li>• Thorough transaction descriptions</li><li>• Invoices</li><li>• Proof of inventory review</li><li>• Some record of PI and/or Business Manager approval</li></ul>

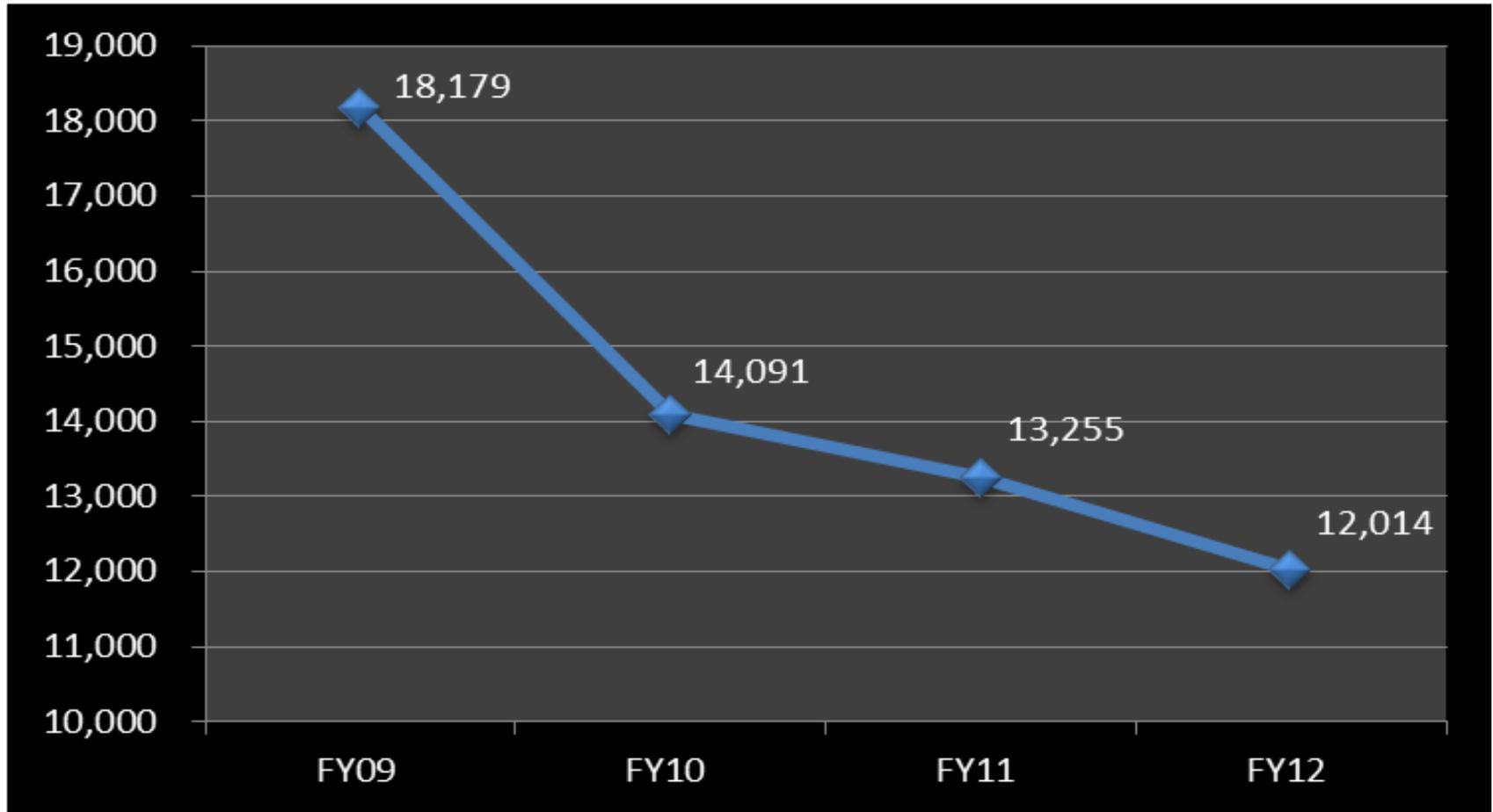
# Overdrafts

Issue	Recommendation
<p data-bbox="112 468 938 516"><b>Overdraft...overdraft...overdraft!</b></p> <ul data-bbox="112 551 707 773" style="list-style-type: none"><li data-bbox="112 551 707 608">• Budget vs. expense</li><li data-bbox="112 631 707 688">• Cash vs. budget</li><li data-bbox="112 716 707 773">• Cash vs. expense</li></ul>	<p data-bbox="996 468 1715 516"><b>Spend Only What You Have!</b></p> <ul data-bbox="996 536 1800 893" style="list-style-type: none"><li data-bbox="996 536 1800 594">• Spend within approved budget</li><li data-bbox="996 608 1800 708">• Spend within line items for per award terms</li><li data-bbox="996 736 1800 893">• Review ledgers to ensure continuation or supplemental budget is not missing</li></ul> <p data-bbox="996 916 1340 965"><b>Cash Is King!</b></p> <ul data-bbox="996 988 1800 1179" style="list-style-type: none"><li data-bbox="996 988 1800 1179">• Pay attention to these terms: “...<i>payment upon deliverable</i>...” “...<i>final invoice due within _ days</i>”</li></ul>

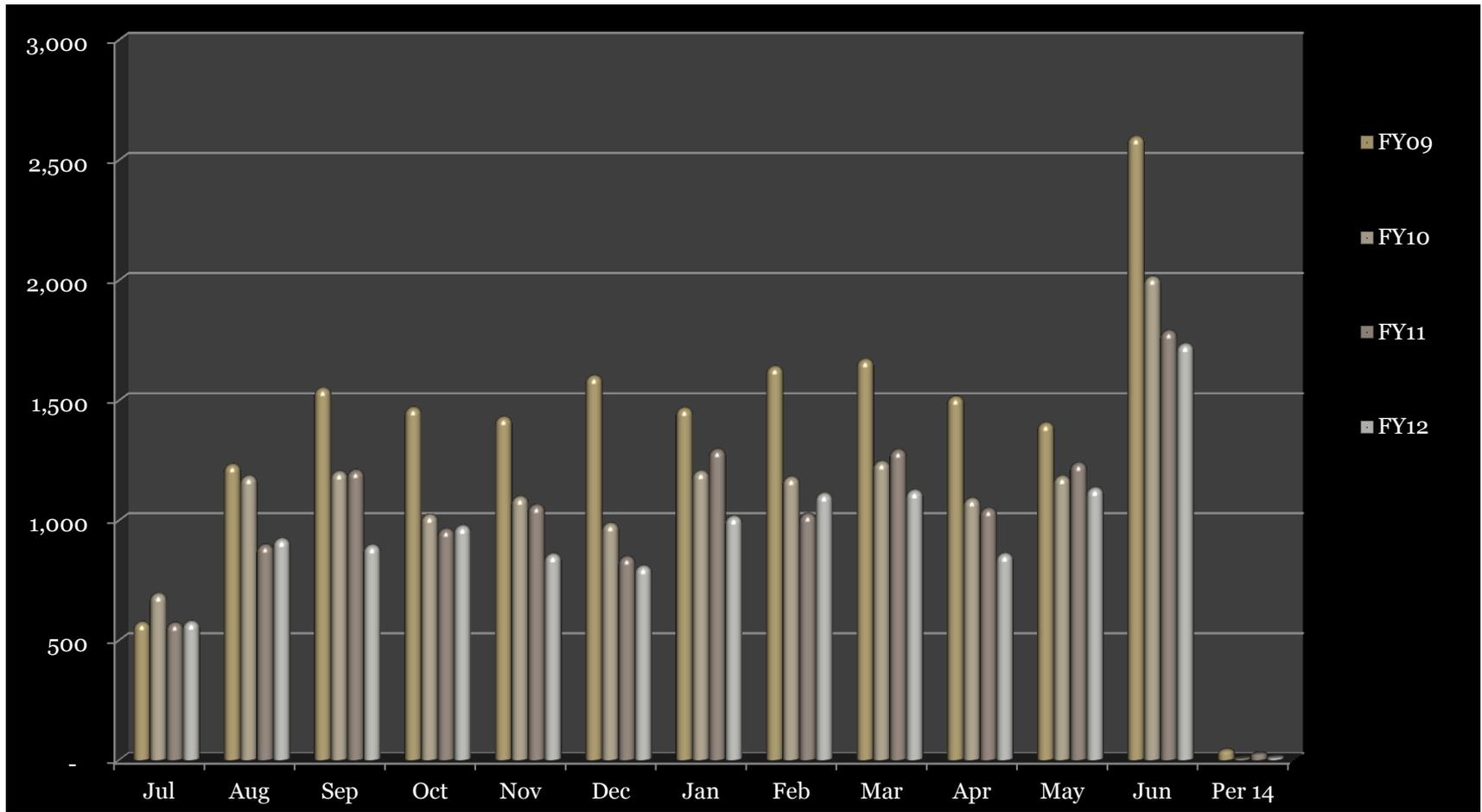
# Questionable Spending Patterns

Issue	Recommendation
Cost incurred after the award period	Stop spending after project end date
Allocation of expenses to various awards	Do not use grant accounts as “holding/clearing” accounts
Excessive cost transfers	Review/reconcile expenses on a regular basis
Available funds paradigm	Charge only project-related costs, not based on how much money is available

# UIC – Journal Voucher Entries on Sponsored Awards FY09 – FY12



# UIC – Journal Voucher Entries on Sponsored Awards by Period FY09 – FY12



# Departmental Activities

Issue	Recommendation
<b>Departmental Billing</b>	
Invoiced amounts do not tie to <b>Banner</b>	Invoices submitted must match <b>Banner</b> system.
Copies not sent to GCO <ul style="list-style-type: none"> <li>• Not recorded in the system</li> <li>• Receivables understated</li> </ul>	Invoices should be sent to GCO for review, approval, recording, and collecting purposes.
<b>Other Activities</b>	
Submission of progress reports and other deliverables	Be aware of all reports and deliverable due dates per award terms.
Work on projects before fully executed agreement in place	Request anticipation account; ensure project begin date is correct on the final contract.

## Current Activities – GCO

- Increasing frequency of communications related to compliance issues
- Developing cost sharing guidelines
- Developing subrecipient monitoring guidelines
- Continuing to monitor the following:
  - Lump sum payments
  - Tuition differentials
  - Labor redistributions
  - Unallowable costs
  - Termination payouts
  - Cost transfers

# Resources

- [Office of Management and Budget \(OMB\) Circulars](#)
- [National Science Foundation \(NSF\)](#)
- [National Institutes of Health \(NIH\)](#)
- [UIC Office of Research Services \(ORS\)](#)
- [UIC Grants and Contracts Office \(GCO\)](#)
- [OBFS Policies and Procedures - Section 16](#)

# Questions? Contact Us!

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# Learning Activity One

Term	Definition
1. Reasonable	<b>2</b> Benefits the project or award that was charged.
2. Allocable	<b>3</b> Items not restricted by federal regulations or the specific grant/contract.
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## Learning Activity Two

Which Circular sets the standards to test compliance for the annual single audit?

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  - B. OMB Circular A-122
  - C. OMB Circular A-133
  - D. OMB Circular A-110
- C. OMB Circular A-133**

# Learning Activity Three

Role	Responsibility
1. Principal Investigator	2 Implement and adhere to internal controls.
	1 Make budget allocation decisions.
2. Business Manager	2 Stay abreast of policy and regulation changes.
3. GCO – Compliance	3 Monitor compliance and assist with troubleshooting.
	1 Are aware of expenditures charged to the sponsored award.
	2 Assure complete and accurate recordkeeping.