

## Why Financial Compliance Matters—a Primer

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## Opening Questions

1. Do you want a higher F&A rate or more detailed financial compliance? Explore the link between A-21, A-133, & DS-2
2. Whose responsibility is it to reduce risk?
3. What can you take back to your University and immediately use in your work the next two weeks?

\*\* Encourage questions & discussion

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## What is Your Mind Set of How Financial Compliance Fits Into the Mission?

- Positive or negative ethics?
- Obligation or responsibility
- Stewardship or manipulation
- Federal Awards or revenue
- Costs vs. benefits
- Parts vs. the whole
- Risks vs. compliance
- Perfection vs. progress
- Pre-award vs. post award

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## What is Your View of Financial Compliance?

1. Do you think: "our university will never get caught. *And, if we do we will just settle.*"
2. Is it ok to "Get away" with breaking federal reg. and guidelines?
3. Are your ethics "do right" or "avoid negatives"?
4. How do you decide what areas must be fixed and how do you tolerate current messes?
5. Do you blame others for compliance issues?
6. Do you think compliance issues are systematic or isolated parts?

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## Foundational Terms

1. Stewardship
2. Ethics—what is right (vs. avoid negatives)
3. Financial Compliance
4. University's annual A-133 Report
5. Disclosure Statement DS-2 (How you claim your Univ. works)
6. Materiality -- it all matters!
7. Cost Accounting Standards, OMB A-21
8. OIG / NIH: DCA

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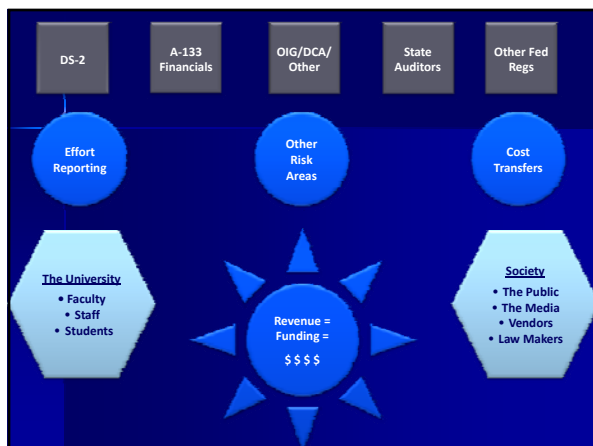
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**Federal View of Financial Compliance**  
**OIG Report dated January 16, 2009**

**Duke University.** During the period October 2002 to September 2004:

The University claimed reimbursement for \$594,104,781 of costs incurred on 2,566 grants, contracts, and other agreements with components of the Department of Health and Human Services (HHS).

(formatting and highlighting added by UNMC)

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**Federal View of Financial Compliance**  
**OIG Report dated January 16, 2009**

In accepting grants, contracts and other agreements awarded by HHS and other Federal Agencies, The University agreed to comply with:

- regulations governing the use of Federal funds and ensure that costs charged to those grants... were allowable under the cost principles [Per OMB A-21]

(formatting and highlighting added by UNMC)

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**Federal View of Financial Compliance**  
**Duke, OIG Report dated January 16, 2009**

**Cost Principles**

To be allowable, costs must be:

- reasonable
- be allocable
- consistently treated
- conform to any mandated exclusions or limitations.

(format and highlight added by UNMC)

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### Quick Primer:

#### Cost Accounting Standards

Per **OMB Circular A-21** (for Universities)

- Expenditures must be:
  - Allowable
  - Reasonable
  - Consistent
  - Allocable

OMB A-21:  
[http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html)

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### Primer: Allocable

- Goods or service directly *beneficial* and/or *attributable* to the project
- This is toughest one to grasp!

Example:

- Salary and Benefits
  - Effort Reporting (Certification) requirement
  - Splitting up 100% “effort” into discrete buckets of dollars & %’s

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### *“The Spinning A-21 Response”*

a Top 10 song

- Definition
  - The University **Response**
  - Attempt to save face, and....
- Costs
  - Audit costs /supporting the auditors: (more than you guess!)
  - Costs of process improvements & new staff  
\$8X + #@!\$

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## Positive Ethics

- How could a University react to:
  - an audit
  - the actual auditors (real people)
  - findings
  - a corrective action plan
  - identification of system weaknesses
  - being “caught”
  - the media

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## ***Short List:*** Areas of Financial Compliance Risks

- Direct Costs
- Cost Transfers
- Cost Share
- Effort Certification
- Sub-Contracts
- Institutional Base Salary
- F&A Costs
- Service Centers
- Other

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## Ex: Cost Transfers

### **Defined:**

A cost initially charged to one cost object and later transferred to a Federal award or contract

- ***Very complex area***
- Ties to Effort Reporting– re-certify?
- Documentation, is it “adequate”?
- EASY area for feds to audit

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## **DS-2, Disclosure Statement** ***"Disclose a what?"***

- What the university says it does
- The cost accounting bible for your university- it really matters!
- Should be reviewed and kept current
- OIG would use DS-2 to audit your university

A-21 C.14 & Appendix A, CAS 9905.502

**BUT- What does your university  
REALLY do??**

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## **Connections**

- Financial Compliance risk areas
- University's A-133 Report
- DS-2 / A-21 Cost Acct. Stds.
- Negotiated F&A Rate & Proposal
- Reputation
- Faculty recruitment
- Morale
- Federal Funding level (*revenue*)

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## **Higher Level Take Away**

- Be part of the solution
- Recognize the complexity of financial compliance
- The feds hold us to a high standard
  - A-21, Cost Acct. Stds.
- DS-2, A-133, and fed. audits have direct impact on F&A rates and funding
- In long term, increasing compliance will help protect fed. funding
- It is all part of "transparency"

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## Questions / Comments?

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