

# What to Expect When You're Expecting... An Audit

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Office of Sponsored Research



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2021

UNC SYMPOSIUM

*for*  
RESEARCH ADMINISTRATORS

# Learning Objectives

- Audit definitions
- Overview of the stages of an audit
- Uniform Guidance Single Audit
- Relationships with auditors and leadership
- What you should do if you are audited
- How to prepare for an audit



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# Poll Question

Have you been involved in a financial audit of a sponsored project (either as auditor or auditee)?

- No
- Yes as the auditee
- Yes as the auditee, but not heavily involved
- Yes as the auditor



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# Audits and Reviews – Why?

- Uniform Guidance (for federal awards) and almost all other sponsor terms and conditions contain an audit clause:
  - “We have the right to come audit you and you can’t say no. See you soon.”
- When negotiating and accepting awards/contracts, make sure that the audit clauses are reasonable and that you can fulfill them if required
  - Example: European Commission
- Subrecipient Monitoring – if the award is a pass-through from another entity (UNC is the subrecipient), that entity may audit UNC as part of their subrecipient monitoring process



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# Definitions

- Audit vs. Agreed Upon Procedure vs. Review vs. Attestation vs. Monitoring Visit
- Auditor – organization performing the audit
- Auditee – organization being audited
- Audit Sample – the subset of transactions and items that are selected for testing
- Audit Population – the entire universe of transactions during the audit period
- Audit Period – time period covered by the audit (Ex. FY2021)
- Audit Scope – content covered by the audit (Ex. expenses, reports, effort, etc.)



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# Stages of an Audit

1. Notice of audit
2. Entrance conference
3. Internal control interview and assessment
4. Expense population and verification
5. Expense sample selection
6. Documentation Request
7. Draft findings / Draft report
8. Exit Conference / Resolution



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# Audit Entrance Conference

- Don't be afraid to ask questions – What exactly are you testing? What do you need? How do you sample? What is the expected timeline? Will we receive a draft report prior to publishing? Will you be working on-site or off-site?
- Promote an attitude of cooperation and transparency
  - Be prepared to provide general information about project/process
  - Sometimes, the auditors have no idea about your process. You can help guide them so that testing is as effective and efficient as possible.



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# Internal Control Assessment

- Auditors will conduct interviews or provide questionnaires
- Auditors use this to gain an understanding of internal controls and business processes
- Be as realistic as possible. Don't exaggerate existing internal controls, because the auditors will test these as part of the audit.
- Be prepared to prove everything with documentation, walk-throughs, etc.



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# Expense Transaction Testing

- Auditors will request a population of expenditures
  - Ensure population completeness
  - Based on audit period (ex. all expenses charged to project for FY2021)
- Audit Sample Selection
  - Subset of the population
  - May be 25 transactions, may be 100% of total transactions
  - You can ask questions about sampling techniques, but won't be able to influence
- Supporting documentation required for each transaction selected in the sample



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# Findings, Exit Conference, and Resolution

- Draft copy of findings and audit report should be provided by auditors
- Most auditors will be flexible with language in report, to an extent
  - If anything is misstated, let auditors know as soon as possible
- Final Audit Report and Auditee Response
  - Don't include anything in your response that you wouldn't want to be public
- Exit Conference
  - There should be **NO SURPRISES**, either from auditor or auditee
- Resolution
  - May have to refund sponsor for any unallowable costs, etc.



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# Uniform Guidance Single Audit

- Annual audit of federal awards, performed at institution-level
- May focus on specific federal programs
  - Ex. Research and Development, Student Financial Aid
- UNC is included in the State of North Carolina Single Audit Report
- UNC's Single Audit covers approximately \$700 million in federal expenses
  - Transactions selected across many different departments and projects
- Performed by the North Carolina Office of State Auditor



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# Popular Audits

- Uniform Guidance Single Audit
- Federal OIG Audits (!)
- State of North Carolina Agencies
  - DHHS, DPS, GCC, etc.
- Foundations
- Foreign Sponsors
- Industry Sponsors
- Internal Audit



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# I Just Received an Audit Request – What Do I Do?

- Contact OSR immediately
  - [BWright1@email.unc.edu](mailto:BWright1@email.unc.edu)
  - [PostAwardReview@unc.edu](mailto:PostAwardReview@unc.edu)
  - [ResAdminOSR@unc.edu](mailto:ResAdminOSR@unc.edu)
- OSR will serve as the audit point of contact
  - Liaison between auditors and departments/projects
- Provide information and documentation timely
  - OSR may need time to compile and review documentation prior to providing to auditors
  - Last minute submissions may lead to misunderstandings



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# I Just Received an Audit Request – What Do I Do?

- **Make sure leadership is aware of the audit**
  - If leadership does not play an active role in the audit, make sure that they are updated frequently
    - Ensure they know the audit is occurring
    - Ensure they know about any potential problems as soon as possible
  - Make sure leadership knows what to expect prior to issuance of audit report/findings



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# Relationships With Auditors

- Relationship between auditee and auditor is extremely important (for both sides)
- Life can be easy(ish) or difficult for auditee based on this relationship
- Auditors are human too
- Auditors are not perfect- they may make mistakes
- Auditors are often reviewing many transactions, some of which they may not fully understand



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# What to Do During Normal Business to Prepare

- Documentation
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# What to Do During Normal Business to Prepare

- Documentation
- Ensure that policies and procedures are accurate and up to date
  - Is this documented?
- Ensure that policies and procedures are being followed
  - Is this documented?
- Ensure internal controls are operating appropriately
- Ensure that unallowable transactions are identified and resolved timely



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# Questions?

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