The purpose of this document is to provide an overview of audit process and to define various types of audits.

This document is continually being updated; we would appreciate any information and/or insight which would help us develop stronger policies for NMIMT's research community.
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I. Introduction

Audits are a regular part of the administrative process at New Mexico Institute of Mining and Technology (NMIMT). External audits are reviewed by and coordinated with the Vice President of Administration and Finance and the Director of Finance.

The Single Audit Act and OMB Circular A-133 require a coordinated approach between all organizations that audit a university. A coordinated approach regarding audits of educational institutions results in gained economies through mutual reliance and avoids duplication of effort on various tests and procedures.
II. Purpose

The purpose of a cost audit (regarding direct or indirect charges) is to determine the following four factors:

A. Allowability

Allowability for reimbursement purposes pertains to direct and indirect charges. Allowability is determined by the terms of the governing sponsored agreement or by cost principles established by the federal government in OMB Circular A-21. For example, OMB Circular A-21 specifically defines certain types of expenses (e.g., alcohol, lobbying or entertainment) as unallowable. Other costs may be unallowable per the specific terms of an award (e.g., unapproved foreign travel or equipment costs). By definition, these types of expenses are unallowable. Auditors are always alert to the possibility that unallowable costs might have been charged. As a result, they may devote considerable energy to testing specific transactions to see if they fall into an unallowable category.

A cost which is unallowable for a sponsored project may still be an appropriate expense for NMIMT. For example, alumni activities are considered a type of appropriate NMIMT activity. Alumni expenses, however, are unallowable for overhead reimbursement purposes, i.e., they may not be charged to the government indirectly.

B. Allocability

Allocability is defined as a cost allocable to a particular cost objective (i.e., a specific function project, sponsored agreement, department, etc.) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Allocability is not the same as allowability; an otherwise allowable cost (e.g., salary or travel) may be unallocable to a particular account if the project supported by that account did not benefit from the costs.

C. Reasonability

A cost may be considered reasonable if the nature of the goods or services acquired or applied for reflect the action that a "prudent person" would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

An auditor may legitimately question a cost that is clearly allocable and not otherwise unallowable if, in the auditor’s judgment, the cost exceeds what a reasonable person would have paid in similar circumstances.
D. Consistent Treatment

Consistent treatment denotes that similar expenses must be treated the same in similar circumstances.

Auditors question but do not disallow costs. If auditors identify financial transactions that they believe to be inappropriately classified, unreasonable, unallocable, or unallowable, they will question that transaction. Final decisions about the ultimate allowability of a questioned cost are made by a cognizant contracting official taking into account the auditor’s report and NMIMT’s response.
III. Types of Audits

A. Property Control Audit
The purpose of a Property Control Systems Analysis (PCSA) audit is to ascertain if NMIMT’s property control system is satisfactory to provide control, protection, preservation, and maintenance of all government property within the requirements of the Federal Acquisition Regulations (FAR) 45.5, Defense Supplement to the FAR (DFAR) 245.5, OMB Circulars, and all other applicable agency and contractual requirements.

B. Preaward Audits
Preaward audits are typically conducted by the Defense Contract Audit Agency (DCAA) and/or other sponsor auditors to verify the estimated costs submitted in large sponsored research project proposals. Audits may be desk or on-site. This audit involves proposal preparation staff and/or Principal Investigators (PI). Preaward audits may also involve human resources, purchasing, and fiscal personnel. Preparation for this type of audit normally entails accumulating cost documentation for all proposed direct costs.

C. Claimed Cost Audits
Sponsors may request their auditors to verify the allowability, allocability, and reasonability of direct costs that have been charged and billed by NMIMT, especially in connection with cost-reimbursable grants and contracts. Audits of claimed direct costs are most commonly carried out at the completion of the sponsored project when NMIMT has presented a final invoice to the sponsor.

D. Indirect Cost Audits
NMIMT recovers its Facilities and Administration costs (also referred to as either F&A costs or indirect costs) associated with sponsored projects through the application of indirect cost rates to sponsored project billings. F&A costs represent a recovery of actual infrastructure expenses incurred in support of the sponsored function (i.e., General Accounting, Payroll, Property, Travel, Human Resource departments etc.)

NMIMT annually prepares a proposal and incurred cost study to serve as the basis for negotiating a rate with the Office of Naval Research (ONR). DCAA audits these proposals and cost studies to advise the ONR on the allowability, allocability, and reasonability of proposed and incurred indirect costs.
E. Compliance and General Control Audits
Educational institutions are required to comply with a large and constantly changing array of government rules and regulations. Auditors of all types depend on NMIMT’s internal controls to achieve compliance and periodically undertake separate audits to test the effectiveness of those controls. NMIMT’s independent public accountants annually conduct a single federal compliance audit as required by the provisions of OMB A-133: Audits of States, Local Governments and Non-Profit Organizations.

F. Financial Statement Audits
Annually, the independent public accountants for NMIMT conduct audits to assess the accuracy and fairness of the University’s year-end financial statements.