



Federal and Other External Audits

New Mexico Tech Cost Accounting and
Reporting Office
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This document is continually being updated; we would appreciate any information and/or insight which would help us develop stronger policies and procedures for NMIMT's research community.

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I. Introduction

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

Audits are a regular part of the administrative process at New Mexico Institute of Mining and Technology (NMIMT). The parties involved in the audit process know beforehand what is expected and what the products of the audit will be. Repeated exposure to a structured audit process promotes discipline in NMIMT's accounting practices.

External audits are reviewed by and coordinated with the Department of Cost Accounting and Reporting, the Vice President of Administration and Finance, and the Controller.

II. Audit Purpose

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

A. Allowability

Allowability refers to costs, direct or indirect (F&A) that are appropriately charged to a sponsored project for reimbursement purposes. Allowability is determined by the terms of the governing sponsored agreement or by cost principles established by the Federal government in the UG. For example, the UG 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 FUND if the project supported by that FUND 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. Single Audit

The single audit is the primary mechanism used by Federal agencies to ensure accountability for Federal awards. Auditors rely on the 2 CFR 200 Compliance Supplement issued by the OMB for guidelines to be used in testing Federal program compliance requirements. The supplement provides audit guidance for over 150 Federal programs identified by a CFDA (Catalog of Federal Domestic Assistance) number. A cluster of programs is a group of closely related programs that share common compliance requirements and are considered one program for audit purposes. The “Matrix of Compliance Requirements” identifies which of 14 types of compliance requirements may apply to a Federal program. It is then up to the auditor to develop audit procedures to test for compliance and issue a single audit report.

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. One such audit is conducted by Sandia National Labs.

D. F&A 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 expenses. 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 Resources 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.

Additional Audits that occur due to the F&A Indirect Cost Audits are:

- Labor Audits

- Space Utilization Audits

- Accounting Disclosure Statement Audits

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E. Compliance and General Control Audits

Educational institutions are required to comply with a large and constantly changing array of governmental 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 UG Subpart F: Audit Requirements Section 200.500.

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.

G. 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 Regulations, and all other applicable agency and contractual requirements. The audit is conducted by the Office of Naval Research in coordination with the property office.