Increased Audit and Financial Risk with Federal transition to Subaccount

Yoon Lee
NIH award transition to subaccount

Timeline overview

July 2013:
- Under directive of DHHS, NIH announced transition of all domestic awards in the pooled account to subaccounts in Payment Management System (PMS).
- Goals were to increase data transparency related to all financial activities on the letter of credit and to enhance effective and timely closeout of awards.

October 2013:
- NIH started issuing a competing awards under subaccounts in PMS.

October 2015:
- NIH started transitioning non-competing awards from the pooled account to subaccounts in PMS.
NIH award transition to subaccount

Pooled account:
- UCLA draws cash for all awards in the pooled account in lump sum every week and reports detailed cash draw amount for each award quarterly (FFR 425).
- NIH does not have cash disbursement information at award level until the quarterly FFR is submitted.

Subaccount:
- UCLA is required to identify the amount to draw at award level each time when cash is drawn.
- NIH has access to cash disbursement information at award level at any given point of time.
- UCLA generally draws cash every week → UCLA spending information is provided for each award in PMS every week.
NIH award transition to subaccount

Transition Trend and Status at UCLA

- As of December 31, 2016, UCLA had 921 awards in subaccounts and 193 awards remaining in the pooled account. 83% of awards are in the subaccount.
NIH Cash Draw Data

NIH Cash Draw Amount for October 2016 through January 2017

- Average monthly draw amount is approximately $31.5 million. 95% of amount are now drawn from subaccounts.

<table>
<thead>
<tr>
<th>Total Cash Draw</th>
<th>Oct-16</th>
<th>Nov-16</th>
<th>Dec-16</th>
<th>Jan-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pooled account</td>
<td>1,714,189.18</td>
<td>784,302.78</td>
<td>305,334.92</td>
<td>1,469,399.08</td>
</tr>
<tr>
<td>Subaccount</td>
<td>29,143,375.53</td>
<td>45,455,459.80</td>
<td>9,849,391.16</td>
<td>29,986,689.10</td>
</tr>
<tr>
<td>Total</td>
<td>30,857,564.71</td>
<td>46,239,762.58</td>
<td>10,154,726.08</td>
<td>31,456,088.18</td>
</tr>
<tr>
<td>Subaccount / Total</td>
<td>94%</td>
<td>98%</td>
<td>97%</td>
<td>95%</td>
</tr>
</tbody>
</table>

- Average monthly refund is over $700k, about 2.5% of average monthly expenditure. More frequent refunds are noted on certain funds.

<table>
<thead>
<tr>
<th>Subaccount</th>
<th>Oct-16</th>
<th>Nov-16</th>
<th>Dec-16</th>
<th>Jan-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash draw (expenditures)</td>
<td>29,702,767.89</td>
<td>46,031,853.23</td>
<td>10,501,067.03</td>
<td>31,073,454.77</td>
</tr>
<tr>
<td>Refund</td>
<td>(559,392.36)</td>
<td>(576,393.43)</td>
<td>(651,675.87)</td>
<td>(1,086,765.67)</td>
</tr>
<tr>
<td>Total</td>
<td>29,143,375.53</td>
<td>45,455,459.80</td>
<td>9,849,391.16</td>
<td>29,986,689.10</td>
</tr>
<tr>
<td>Refund/Expenditures</td>
<td>2%</td>
<td>1%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>
NIH Cash Draw Data

Return of funds on awards:

- Occurs when expenses decreased from the last draw
- Represents cost transfers → Costs were incorrectly charged to the project
- Frequent and/or material refund may alert NIH of deficiency in internal controls over administering grants
- For awards in the pooled account, frequency and amount of refunds are not transparent since award level data are provided quarterly.
- For awards in subaccount, frequency and amount of refunds are tracked in a transparent manner.
NIH Cash Draw Data

- Weekly draw activity on one actual NIH award in the subaccount from Oct 2016 – Jan 2017

Credit back to LOC: returning cash  No cash request: no expense incurred
NIH Cash Draw Data

Spending data for awards in subaccount are up to date and readily available for NIH. Questions can be asked when

- Frequent and/or material refunds are made
- Accelerated spending toward the end of the project period is noted
- High unexpended balance remains when the project period is near to end
- Spending is deemed not aligned with progress reported

These are not necessarily mean improper financial management; however if appropriate explanation and/or documentation is not provided when asked, they may lead more investigation
NIH FFR Approval and De-obligation

- We noted significant improvement in NIH’s turnaround times to review FFR: generally within 1 month after FFR submission.

- With transition to subaccounts, we also noted immediate de-obligation of funds in PMS: on the same day of FFR approval.

- Additional expenses not reported in the original FFR is not likely to be reimbursed even if the revised FFR is submitted once funding is de-obligated in PMS.

- Timely submission of accurate COP to EFM will ensure reimbursement of costs incurred for the project.
### NIH FFR Approval and De-obligation

**Case #1: NIH-National Institute of Environmental Health Sciences (NIEHS)**

**Project Period:** 09/22/14 - 08/31/16  
**Federal funds authorized:** 162,002.07  
**Final expenses reported:** 154,000.00  
**Unobligated balance:** 8,002.07

<table>
<thead>
<tr>
<th>PMS</th>
<th>POST DATE</th>
<th>ISSUE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>-8,002.07</td>
<td>12/21/2016</td>
<td>12/19/2016</td>
</tr>
<tr>
<td>0</td>
<td>8/14/2015</td>
<td>8/13/2015</td>
</tr>
<tr>
<td>154,000.00</td>
<td>9/22/2014</td>
<td>9/19/2014</td>
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<tr>
<td>154,000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**FFR Due:** 11/29/2016  
**FFR Submitted:** 11/28/2016  
**Date NIH accepted FFR:** 12/19/2016

**FFR accepted on 12/19/16 → Balance de-obligated on 12/19/16**
(Balance de-obligated within 1 month from submission of FFR)
NIH FFR Approval and De-obligation

Case #2: NIH-National Institute of Neurological Disorders and Stroke (NINDS)

<table>
<thead>
<tr>
<th>Project Period</th>
<th>07/01/14 - 06/30/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal funds</td>
<td>423,500.00</td>
</tr>
<tr>
<td>authorized</td>
<td></td>
</tr>
<tr>
<td>Final expenses</td>
<td>422,047.15</td>
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<tr>
<td>reported</td>
<td></td>
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<tr>
<td>Unobligated balance</td>
<td>1,452.85</td>
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</tbody>
</table>

FFR Due 10/28/2016
FFR Submitted 10/27/2016
Date NIH accepted FFR 11/8/2016

<table>
<thead>
<tr>
<th>PMS</th>
<th>POST DATE</th>
<th>ISSUE DATE</th>
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</thead>
<tbody>
<tr>
<td>192,500.00</td>
<td>4/30/2015</td>
<td>4/29/2015</td>
</tr>
<tr>
<td>231,000.00</td>
<td>4/23/2014</td>
<td>4/23/2014</td>
</tr>
<tr>
<td>422,047.15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FFR accepted on 11/08/16 → Balance de-obligated on 11/08/16
(Balance de-obligated within 1 month from submission of FFR)
Case #3: NIH-National Institute of Child Health and Human Development (NICHD)

Project Period: 05/12/14 - 04/30/16
Federal funds authorized: $152,075.00
Final expenses reported: $149,688.09
Unobligated balance: $2,386.91

FFR Due: 7/29/2016
FFR Submitted: 7/26/2016
Date NIH accepted FFR: 8/16/2016

NIH FFR Approval and De-obligation

FFR accepted on 8/16/16 → Balance de-obligated on 8/16/16 (Balance de-obligated within 1 month from submission of FFR)
Increased Risk for Audit and Financial Loss

Spending data are readily available for funds on letter of credit

- Transition of all NIH awards in the pooled account to subaccount in PMS is anticipated to be completed in August 2017.
- Cash draws on all NSF awards are performed at the award level in ACM$.
- More data are available for sponsors to conduct various data analytics to effectively and efficiently identify questioned and/or unusual patterns for further investigation.

It is important

- To record expenses to the correct project to minimize cost transfers.
- To monitor spending rate in relation to project progress and record charges timely.
- To submit an accurate FFR timely for reimbursement for cost incurred for the project.
- To be aware that a window of opportunity for revision is short.
Contact information

EFM Website
http://ora.research.ucla.edu/EFM/

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