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The Third Stage of Research: Auditing

Two of the three stages of federally funded research at universities work well. These are the selection process and the actual performance of the research. The third, demonstration of financial accountability, has not worked well in many cases. I think this disparity is the result of current auditing procedures.

It does not have to be this way. The Department of Defense, for example, long ago chose to place auditors full time on campuses for which it has audit responsibility. These individuals learn about the conduct of science as they review the spending that makes it possible. However, the approach of the Department of Health and Human Services, which audits roughly 95 percent of the universities, has been to send in teams of auditors for an intense scrutiny of the books every few years. This has frequently resulted in very large set-asides or disallowances. The fact that settlements negotiated later have been a fraction of the recommended disallowances has done little to ease the concern of some people in government that universities are not handling the money well.

There are, however, some changes in the wind. Last fall DHHS awarded 22 contracts to large universities to try out a new approach, with coordinated audits to be carried out by public accounting firms and, where appropriate, by university auditing staff working under approved guidelines. The results of these experiments should be available this summer. The Office of Management and Budget has created an interagency task force to see whether this approach makes sense for all agencies that audit federal research spending at universities.

Still unknown is what kind of guidelines or requirements will result. The options range from a brief summary of critical elements to supplement traditional auditing standards to a detailed manual of procedures spelling out every move. Also unknown is how the various participants will respond. For the university's managers and nonfederal accountants, the change means assuming greater responsibility for demonstrating financial accountability. It also involves a cost previously borne by the federal agency. For nonfederal accountants there is the opportunity to conduct audits that reflect a better understanding of the campus research environment than has been the case with many federal audits over the past decade. The perspective brought by these accountants to the audit assignment will be a key variable in the success of the new approach.

The role of federal financial and audit managers will remain crucial. They will retain responsibility for assuring Congress and the public that federal funds have been spent in accordance with the cost principles outlined in OMB Circular A-21 and other relevant regulations. But the coordinated approach entails ongoing consultation from the drafting of the audit plan to the issuance of the audit report. My experience has been that differences between the government and the universities arise less from cost principles than from nonnegotiable interpretations of these principles by the federal audit agency. The new approach can lessen this problem. It can also include current reviews (eliminating the need for extrapolation, which involves large financial stakes) and value prospective improvements over punitive disallowances.

What can faculty do during this time of change? I think their most useful contribution would be to ensure that the problems and perspectives of experienced faculty researchers are understood by those planning and conducting the audits. The review of research expenditures has become too important to be left solely to the accountants. Faculty have long been key participants in the peer review process and in directing the research itself. It is time they joined in shaping the reviews of spending which have eroded the university-government relationship in recent years. The next year or two will show whether all the participants make use of this opportunity.

—JOSEPH S. WARNER, *Director, Grant and Contract Administration, Yale University, New Haven, Connecticut 06520*