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# **Circular A-133 Audits for Non-Profit Clients: Protecting Grant Eligibility**

Successful Audit Tactics Based on Latest Guidance and Standards

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TUESDAY, JANUARY 31, 2012

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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Today's faculty features:

John Eusanio, Senior Manager, KPMG, New York

Ryan Gough, Audit Manager, Berry Dunn, Manchester, N.H.

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# Circular A-133 Audits for Non-Profit Clients: Protecting Grant Eligibility Seminar

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Jan. 31, 2012

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John Eusanio, KPMG  
[jeusanio@kpmg.com](mailto:jeusanio@kpmg.com)

Ryan Gough, BerryDunn  
[rgough@berrydunn.com](mailto:rgough@berrydunn.com)

# Today's Program

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Review Of Circular A-133 And Related Guidance  
*[John Eusanio]*

Slide 7 - Slide 29

Single Audits, And What To Expect From Auditors  
*[Ryan Gough]*

Slide 30 - Slide 37

Experiences With, Recommendations For Circular A-133 Audits  
*[Ryan Gough]*

Slide 38 - Slide 45

John Eusanio, KPMG

# **REVIEW OF CIRCULAR A-133 AND RELATED GUIDANCE**

# Single Audit Act

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## 1. Single Audit Act (SAA) - 1984

- Created a single, organization-wide financial and compliance audit for state and local entities receiving in excess of \$100,000 a year in federal funds
- The SAA had four major purposes:
  - Promote efficient and effective use of audit resources
  - Establish uniform requirements for audits of federal funds
  - Ensure that federal funds are audited in accordance with the SAA
  - Improve S&L financial management of federally funded programs
- The 1984 SAA did not include colleges, universities and other not-for-profit organizations receiving federal funds.

# Single Audit Act (Cont.)

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## 1. Single Audit Act Amendment - 1996

- In July 1996, Congress enacted the Single Audit Act amendments of 1996, which replaced the Single Audit Act of 1984.
- Streamline and improve the effectiveness of audits of federal awards and simplify reporting requirements
- These goals were achieved, in part, by increasing the dollar threshold for performing a single or program-specific audit and introducing risk-based program selection criteria for major program.

## 2. Single Audit Act amendment - 2003

- Raised the dollar threshold for requirement of a single audit to \$500,000 or more in expenditures in an entity's fiscal year
- Raised the dollar threshold for OMB designation of a federal cognizant agency from \$25 million to \$50 million in expenditures per entity fiscal year
- Allowed federal agencies flexibility to exchange federal oversight agency responsibilities

# Auditee Responsibilities

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- I. Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity.
- II. Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs
- III. Comply with laws, regulations and the provisions of contracts or grant agreements related to each of its federal programs
- IV. Prepare appropriate financial statements, including the schedule of expenditures of federal awards
- V. Ensure that the audits required are properly performed and submitted when due
- VI. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan

# Auditor Responsibilities

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- I. The auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects and in conformity with generally accepted accounting principles.
- II. The auditor shall also determine whether the schedule of expenditures of federal awards is presented fairly in all material respects, in relation to the auditee's financial statements taken as a whole.
- III. The auditor shall perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.
- IV. The auditor shall determine whether the auditee has complied with laws, regulations and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

# Entities Subject To A-133 Audit

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- A. An entity is subject to an A-133 Audit if it spends U.S. \$500,000 or more in federal awards
- States and local governments
  - Non-profit organizations
  - Higher education institutions
  - Hospitals
- B. Amount of federal awards expended is the basis for determining if A-133 audit is required

# Determining When A Federal Award Is Expended

Grants, cost-reimbursement contracts, cooperative agreements and direct appropriations

- **When the expenditure/expense transaction occurs**

Loans and loan guarantees

- **Generally, when the loan proceeds are disbursed (lender) or received (borrower), plus any interest subsidy, cash or administrative cost allowance received**

Property, including donated surplus property

- **When the property is received. The amount considered to be expended is the fair market value of the donated property at the time of receipt or the assessed value provided by the federal agency.**

Amounts passed through to sub-recipients

- **When the disbursement is made by the pass-through entity**

# OMB 2011 *Compliance Supplement*

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1. Updated Part 3 I, Procurement and Suspension and Debarment, to include additional information on international agreements and the Buy-American Act
2. Updated Part 3 L, Reporting to:
  - a. Add Federal Funding Accountability and Transparency Act (FFATA)
  - b. Provide transitional guidance for moving from use of SF 269, *Financial Status Report*, and SF 272, *Federal Cash Transactions Report*, to use of SF-425, *Federal Financial Report*
  - c. Clarify 1512 reporting issue
    - i. Using estimates okay; must make corrections
    - ii. Using lag methodology is not appropriate.

# OMB 2011 *Compliance Supplement* (Cont.)

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1. Updated Part 4 to:
  - a. Add 19 new programs (some Recovery Act-specific), delete two programs, add five new programs to clusters (some Recovery Act-specific)
  - b. Make numerous changes to existing programs
2. Updated Part 5 to make numerous changes to student financial assistance
3. Updated Appendix 3, *Federal Agency Contacts for A-133 Audits*, to:
  - a. Add new table to provide contact information by federal program
  - b. Provide up-to-date contact information for each agency single audit coordinator. It is also available at Federal Audit Clearinghouse Web site at: <https://harvester.census.gov/fac/imagemgmt/NSACContactList.pdf> .
4. Updated Appendix 7, *Other OMB Circular A-133 Advisories*, to include:
  - a. List of Recovery Act programs not covered by Parts 4 or 5 subject to a single audit
  - b. List of Recovery Act programs not subject to single audit

# Federal Funding Accountability And Transparency Act (FFATA)

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1. New required federal award reporting process (similar to Recovery Act 1512 reporting): [www.USASpending.gov](http://www.USASpending.gov)
2. Extends to non-Recovery Act federal awards (including grants and sub-grants) and federal contracts
  - a. Beginning 10/1/2010, prime grant awardees of federal grants of \$25K or more must report “first-tier” sub-grants of \$25K or more by end of month following the month sub-award or obligation made.
3. Indication in each program section in Part 4 as to whether reporting under FFATA applies
4. When awards contain both Recovery Act and non-Recovery Act funding, an indication that FFATA only applies to the non-Recovery Act funding

# Federal Funding Accountability And Transparency Act (FFATA) – Required Data Elements

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1. Name of the entity receiving the award
2. Amount of the award
3. Information on the award including transaction type, funding agency, NAIC system code or Catalog of Federal Domestic Assistance number, program income, and an award title descriptive of the purpose of each funding action
4. Location of the entity receiving and the primary location of performance under the award including the city, state, congressional district and country
5. DUNS number of the entity receiving the award and of the parent entity of the recipient, should the entity be owned by another entity

# Federal Funding Accountability And Transparency Act (FFATA) – Required Data Elements (Cont.)

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1. The names and total compensation of the five most highly compensated officers of the entity if:
  - a. In the prior fiscal year, the entity received:
    - i. 80% or more of the entity's annual gross revenues in federal awards
    - ii. \$25 million or more of its annual gross revenues from federal awards
    - iii. The public does not have information about the compensation of the senior executives from another source (SEC or IRS).

# Federal Funding Accountability And Transparency Act (FFATA) – Data Elements Subject To Testing

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1. Sub-award date
2. Sub-awardee DUNS #
3. Amount of sub-award
4. Sub-award obligation/action date (date agreement was signed)
5. Date of report submission
6. Sub-award number
7. Auditors do not need to test executive compensation.

# Recovery Act ... It's Not Over Until It's Over!

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1. Continued Recovery Act implications
  - a. Major program determination
  - b. More federal agency follow-up on findings
  - c. More quality control reviews
  - d. Recovery Act Transparency Board (RATB)  
monitoring activity and looking for fraud, waste  
and abuse
  - e. Much more interest in single audits by federal  
agencies and Congress

# American Recovery And Reinvestment Act Of 2009

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- I. Effect of recovery act awards on major program determination
  1. Clusters of programs specifically listed in the supplement with a new Recovery Act CFDA number added during the current year that also has current year expenditures, should be considered a new program and would not qualify as a low-risk Type A program.
    - a. Would fail the two-year look-back rule
    - b. R&D and SFA clusters are not subject to this guidance.
  2. Although a Type A program otherwise meets the Circular A-133 criteria as low-risk, any program or cluster (excluding SFA) with expenditures of Recovery Act awards would not qualify as a low-risk Type A .
    - a. Even a *de minimis* amount of Recovery Act expenditures would not support identifying the program as low-risk.
    - b. See next slide for exception

## *Effect Of Recovery Act Awards On Major Program Determination*

However, the auditor may consider a Type A program or cluster to be low-risk if all of the following conditions are met:

(1) Program or cluster had ARRA expenditures in the prior audit period.

(2) Program or cluster was audited as a major program in the prior audit period.

(3) ARRA expenditures in the current audit period are less than 20% of the total program or cluster expenditure.

(4) Auditor has followed sections 520(c) and 525 of OMB Circular A-133 and determined that the program or cluster is otherwise low-risk.

# American Recovery And Reinvestment Act Of 2009 (Cont.)

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- I. Effect of recovery act awards on Type B programs
  1. All Type B programs and clusters with Recovery Act expenditures to be considered higher-risk
  2. However, not precluded from selecting Type B programs with no Recovery Act expenditures in lieu of a Type B program or cluster with Recovery Act expenditures

# ARRA – Sect. 1512 Reporting

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1. Common findings identified in 2010 audits
  - a. Reporting a period of time inconsistent with reporting period (best available information concept)
  - b. Amounts reported did not agree to supporting documentation
  - c. Amounts reported were not consistent with other financial reports
  - d. Untimely submission of reports

# Late Filings And Low-Risk Auditee Status

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1. Agencies were instructed last year not to grant any extension requests from grantees.
2. Late filings of Circular A-133 audits in either of the prior two years will preclude low-risk auditee status in the current year.
3. *Compliance Supplement* explains how auditor determines when Circular A-133 audits were filed for previous years.

# 2011 Government Auditing Standards

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1. Purpose of revisions
  - a. Promote modernization of auditing standards
  - b. Streamline with standard-setters
  - c. Address issue GAO has observed
  - d. Respond to needs of the auditing community
2. Revisions to independence
  - a. New framework combines rules (prohibitions) with a conceptual framework
    - i. Generally consistent with IFAC and AICPA
  - b. Certain prohibitions remain
    - i. Generally consistent with Rule 101 AICPA
  - c. Beyond a prohibition
    - i. Apply the conception framework

# 2011 Government Auditing Standards (Cont.)

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1. Changes for field work (performance) and reporting
  - a. Considered clarity project conventions
  - b. Streamlines language to harmonize with AICPA
  - c. Clarified additive requirements
  - d. No new field work or requirements were added for GAGAS engagements
2. Removed duplicative requirements:
  - a. Financial audits
    - i. Restatements
    - ii. Internal control deficiency definitions
    - iii. Communication of significant matters
    - iv. Consideration of fraud and illegal acts
  - b. Attestation engagements
    - i. Internal control deficiency definitions

# Looking Forward

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1. Findings working group output
2. Continued effects from Recovery Act
3. Super group recommendations
4. Changes to single audit rules?
  - a. Threshold
  - b. Compliance requirements
  - c. Timing

# Other Federal Agency Efforts Relating To For-Profit Entities – A New Trend

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1. Department of Energy audit guide
2. Department of Commerce broadband technology opportunities program, program-specific guide
3. Department of Education
  - a. Lender compliance attestation guide for lenders holding federal family education loans
  - b. Lender servicer financial statement audit and compliance attestation guide for lender servicers that service federal family education loans
4. Department of Agriculture
  - a. Rural Utilities Service (broadband)
5. HUD
  - a. Extension of HUD guide to supervised mortgagees
  - b. Modifying HUD guide; Chap. 1 revised recently

Ryan Gough, BerryDunn

# **SINGLE AUDITS, AND WHAT TO EXPECT FROM AUDITORS**

# Agenda For This Section



- Single audits and what to expect from your auditor
  - Pre-audit expectations
  - Audit fieldwork expectations
  - Post-audit expectations

# Pre-Audit Expectations



- Initial requests and communication
  - Timing of compliance audit
  - Request of an interim Schedule of Expenditures of Federal Awards (SEFA), including Catalog of Federal Domestic Assistance (CFDA) numbers
  - Determination of whether the auditee is a low-risk or high-risk auditee
    - In compliance with all of the following for the previous two years:
      - Single audits were performed.
      - Unqualified opinion on the SEFA
      - No material weaknesses were identified on the internal controls over financial reporting (i.e. Yellow Book findings).
      - No compliance findings
      - Reporting package and data collection form were submitted to the Federal Audit Clearinghouse by the due date.
  - Determination of awards to be tested
    - Auditee must have expended more than \$500K in federal awards in order to qualify for an A-133 audit.
    - Type A grant: Organizations with \$10M in total grant dollars and with individual grant programs incurring expenditures greater than \$300K during the fiscal year
    - Type B grant: Those grants that have expended greater than \$100K but less than \$300K

# Pre-Audit Expectations (Cont.)



- Initial requests and communication (Cont.)
  - Request of selected grant agreements
  - Review of Office of Management and Budget (OMB) circulars, to identify the applicable 14 compliance requirements associated with selected grants
    - Part II: Compliance matrix
    - Part III: Compliance requirements
    - Part IV: Program objectives and suggested audit procedures
    - Part V: Compliance supplement for cluster programs (i.e., student financial aid cluster)
    - Other
  - Request of detail expenditures associated with selected grants
  - Sample selection(s) is(are) made on selected grants
    - Multiple samples are likely to be required based on frequency and compliance requirement.
    - Internal control sample will be required, too, as auditors are required to plan for a low- control risk associated with A-133 audits.
  - Inquiries with management, finance and compliance employees to gain an understanding on controls implemented to adhere to compliance.
    - Part VI: Internal controls

# Audit Fieldwork Expectations



- **Testing and more inquires**
  - Request of final SEFA
    - Determination if there have been any changes to SEFA received at interim
  - Sample selection(s) provided
  - Request for supporting evidence on expenditures, reporting, procurement and other compliance requirements
    - Should be able to provide supporting documents with evidence of proper approval
  - If federal funds were used for capital purchases, additional testing needed:
    - Proper inventory policies are enacted and implemented.
    - Bi-annual capital asset inventory count for proper tracking
    - If, in years when assets are sold (and which were initially purchased with federal funds), a portion of the gain should be refunded back to the government
  - Communication of potential findings during testing and inquiries with management

# Audit Fieldwork Expectations (Cont.)



- Finding types
  - Government audit standards/Yellow Book
    - Finding related to the internal control over financial reporting or non-compliance with laws, regulations, contracts or grants agreements, which could have a direct and material effect on the financial statements
  - OMB Circular A-133
    - Finding related to the internal controls over compliance or non-compliance of major programs, which could have a direct and material effect on each major program

# Post-Audit Expectations



- Reporting and communication of results
  - Preparation of the A-133 reports
    - Two independent auditors' reports
      - Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
        - » No opinion is issued on the internal control over financial reporting or compliance of laws, regulations, contracts and grant agreements; only an understanding is gained.
      - Compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance, in accordance with OMB Circular A-133
        - » Opinion is issued on the compliance requirements on the auditee's major programs.
        - » Opinion is issued on the SEFA regarding, if it is fairly stated.
        - » No opinion on the internal controls over compliance; only gain an understanding
    - Client prepared SEFA and accompanying footnotes
      - Basic footnotes
        - » Basis of presentation
        - » Summary of significant accounting policies
        - » Specific footnotes can be required regarding major programs
    - Current findings and status of prior-year findings, if any

# Post-Audit Expectations (Cont.)



- Reporting and communication of results (Cont.)
  - Preparation of the auditee's data collection form (DCF)
    - Online submission of the financial statements and A-133 Report to the Federal Audit Clearinghouse
    - <https://harvester.census.gov/fac/collect/ddeindex.html>
    - DCF should mirror the A-133 report.
    - Best practice is to prepare the DCF simultaneously with the A-133 report
    - Certification of the DCF
      - Auditor and auditee

Given the availability of online resources, virtually nothing should be a surprise.

Ryan Gough, BerryDunn

**EXPERIENCES WITH,  
RECOMMENDATIONS FOR  
CIRCULAR A-133 AUDITS**

# Agenda For This Section



- Experiences and recommendations for effective OMB Circular A-133 Audits
  - Evaluating internal controls
  - Reviewing terms of awards
  - Preparation of the Schedule of Expenditures of Federal Awards
  - Records retention
  - Corrective actions

# Evaluating Internal Controls



- **Experiences**
  - No evidence of properly documented review
  - Lack of segregation of duties
  - Lack of proper procurement and bidding policies
- **Recommendations**
  - Gain an understanding of Part VI and utilize this supplement to determine, develop and implement best practices for solid and efficient controls
  - As internal processes become more automated, with fewer procedures performed on printed documents, achievement of proper documented review can be attained by:
    - Developing regular checklists on procedures performed
    - E-mail notifications
    - Other steps
  - To increase segregation of duties, auditee should consider expanding employee involvement to include employees outside of the Finance Department.
  - Properly implement a bidding and procurement policy

# Reviewing Grant Terms



- **Experiences**
  - Auditee occasionally lacks the knowledge or understanding of the compliance requirements associated with applicable grants.
  - Exclusion of federal pass-through money due to the auditee, assuming no federal funds were associated with the state grant
- **Recommendations**
  - Gain an understanding of applicable compliance requirements by utilizing the following:
    - OMB circular Web site: [www.whitehouse.gov/OMB/circulars](http://www.whitehouse.gov/OMB/circulars)
    - CFDA Web site: [www.cfda.gov](http://www.cfda.gov)
  - Gain an understanding of all agreements, federal or state
    - All grant agreements must be reviewed to determine if federal money is indirectly received by the auditee and must be included as part of the A-133 testing.
    - Federal pass-through money from the state occasionally has specific compliance or contract requirements set in the grant agreement between the state and auditee, not identified or applicable at the federal level.

# Reviewing Grant Terms (Cont.)



- Experiences
  - Improper inclusion/exclusion or designation of funding
  
- Recommendations
  - Gain an understanding of all agreements, federal or state
    - Must determine if the grant money is funded using ARRA money. If so, additional compliance requirements and reporting are required. Also must be designated as ARRA funding on the SEFA and the DCF
    - Vendor vs. grantee

# Preparing The SEFA



- **Experiences**
  - Auditee will prepare a SEFA using the awarded amount and not the expended amount.
  - Multiple-year grant expenditures are improperly stated on the SEFA.
  - Improper tracking of expenditures, especially associated with capital purchases
  - Exclusion of federal pass-through money, due to the auditee assuming no federal funds were associated with the state grant
- **Recommendations**
  - In a one-year grant agreement where the grant period and the organization's fiscal year coincide, it is possible for awarded money to equal expended. However, this is not always the case.
  - An auditee must gain an understanding regarding the terms of their grant agreement to determine the proper grant period, when expenditures should be recorded and in what grant period to be properly reflected on the SEFA.
  - A SEFA must include federal or state agency, grant name, CFDA number, grant ID (state funds) and expended amounts. Information is all identified on the grant agreement; if it is not, contact the applicable granting agency.

# Records Retention



- **Experiences**
  - Auditee will retain documents far past the required/best practice timeframe.
- **Recommendations**
  - Adopt and implement a records retention policy, if not already adopted
  - All grants, depending on agency or type, have different minimum requirements
    - Student financial aid cluster: Typically 3 years
    - Department of Health and Human Services: Varies, but typically 3 years
    - Others, sometimes not identified
  - It is a best practice to review the grant agreement or [www.cfda.gov](http://www.cfda.gov) to identify records retention requirements.
  - If the auditee feels the grant agreement or CFDA Web site is vague, an auditee should refer to the IRS standard requirements for particular items and base retention of the federal taxation guidelines.
    - <http://berrydunn.com/resources-detail/document-retention-schedule>

# Corrective Actions



- Experiences
  - Auditee has developed a far too vague or far too detailed corrective approach, or is too unsure about the existing issue to understand how to correct the finding at all.
- Recommendations
  - No one understands your organization better than you. However, in instances of non-compliance or financial reporting findings, an auditee is best suited to have discussions with the auditor.
  - Pros and cons to vague and/or detailed actions
  - Auditee is best apt to develop a corrective action that will get to the root of the finding and correct in subsequent compliance audits
  - Auditee should follow the correct action to the best of their ability, or the finding in question could be a finding again.