Audit Overview

Quick-Guide to Understanding Audit Requirements for BTOP Program Recipients

WASHINGTON, DC
March 9, 2011
What are the origins of Federal audit requirements?

- Prior to 1984, each Federal awarding agency was responsible for the audit of its own awards. With many entities receiving awards from more than one Federal agency, this grant-by-grant process placed an undue burden on award recipients and inflated the costs to the government.

- The Single Audit Act of 1984 established uniform audit requirements and organization-wide audit procedures for State and local governments.

- Under the Single Audit Act Amendments of 1996, audit requirements were extended to universities and non-profits.

- For-profit entities are not required to have an audit under the Single Audit Act, but Federal agencies incorporate the requirement through special award terms and conditions.
Why are audits required and what audits are required?

- Audits are a tool to demonstrate effective stewardship of Federal funds and to prevent waste, fraud, and abuse
  - Audits focus on compliance, internal controls, and financial management
- OMB Circular A-133, also known as the Single Audit, and Compliance Supplement (Compliance Supplement)
  - Used in the audit of non-profits, State, tribal, and local governments, and universities
  - Audits a combination of the recipient’s Federal programs based on established audit methodologies (not just BTOP)
  - Compliance Supplement provides guidance on auditing program compliance requirements
- Program-Specific Audit (Program-Specific)
  - Used in the audit of commercial and for-profit entities and audits only the specific program (i.e., only BTOP)
  - Agencies typically develop Program-Specific Audit Guidelines for each program
What are the BTOP audit requirements?

- Audit requirements for audit type, rules applied, timeline, and point of submission vary depending on the recipient type

<table>
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<tr>
<th>Recipient Type</th>
<th>Audit Type</th>
<th>Governing Rules &amp; Regulations</th>
<th>Threshold, Frequency &amp; Timeline</th>
<th>Submission Point</th>
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<td>Non-profit, State, tribal, and local government, university</td>
<td>Single Audit</td>
<td>OMB Circular A-133, Compliance Supplement, 15 CFR 14.26(a-b), 15 CFR 14.27</td>
<td>Required for every fiscal year that a recipient expends $500,000 or more in Federal funds.</td>
<td>Federal Audit Clearinghouse (<a href="http://harvester.census.gov/sac/">http://harvester.census.gov/sac/</a>)</td>
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<td>For-profit</td>
<td>Program-Specific</td>
<td>Program-Specific Audit Guidelines - TBD, OMB Circular A-133, Compliance Supplement, 15 CFR 14.26 (d), 15 CFR 14.27, and BTOP award terms and special conditions</td>
<td>Required at least once every 2 years beginning after the first program year (i.e., 1 year from the award start date) for recipient that receive a BTOP award greater than $100,000.</td>
<td>DOC Office of the Inspector General (OIG) and PAM</td>
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How does a BTOP recipient comply with the audit requirement?

- Contract with an independent, third party auditor that demonstrates high degree of expertise
  - To audit a non-profit, State, tribal, and local government, or university recipient, auditor should use OMB Circular A-133, Compliance Supplement, Commerce and BTOP Rules
  - To audit a for-profit recipient, auditor should use the BTOP Project-Specific Audit Guidelines, OMB Circular A-133, Commerce and BTOP Rules
  - All Audits use Uniform Administrative Regulations and Cost Principles, and BTOP program rules and generally accepted government accounting standards (GAGAS)
- Prepare audit file, including program documentation and financials
- Allocate audit costs correctly
  - Audit costs are typically allowable direct costs, but some entities with multiple grant awards may recover costs as part of their NICRA.

A-133 costs for a non-profit, State, tribal, and local government, or university may be a direct expense if the entity, like a non-profit consortium, formed solely to manage a project funded by BTOP funds.
What does the auditor review or look for during the audit?

- The auditor’s primary focus includes compliance, internal controls, and financial management

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<th>Auditor Test</th>
<th>Auditor Review</th>
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| 1) Whether recipient’s financial schedule is free of material misstatement (i.e., it fully accounts for revenues, expenditures, assets and liabilities) and is presented in accordance with GAAP | - Examination of evidence supporting the amounts and disclosures in the financial schedule  
- Assessment of accounting principles used and significant estimates made by management  
- Overall presentation of financial schedule |
| 2) Whether internal controls over major programs are in place to ensure Federal awards are being managed in compliance with applicable laws and regulations | - Transactions are properly recorded and accounted for by recipient  
- Funds, property, and other assets are safeguarded against loss from unauthorized disposition |
| 3) Whether recipient 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 | - Review expenditures compared to list of allowable costs  
- Examine recipient’s cash management, repayment of excess interest earnings, and Federal draw down activities  
- Accurate records maintained on all acquisitions and dispositions of property acquired under Federal awards |
| 4) Whether prior audit findings have been addressed or resolved | - Examine recipient’s summary schedule of prior audit findings to determine whether recipient has materially represented the status of findings |
**What is included in a Single Audit Report and how is it submitted?**

<table>
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<tr>
<th>Recipient Inputs</th>
<th>Auditor Input</th>
<th>Joint Recipient and Auditor Inputs</th>
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<tr>
<td>- Financial Statements and Schedule of Expenditures of Federal Award</td>
<td>- Opinion on Financial Statements and Schedule of Expenditures</td>
<td>- Data Collection Form (SF-SAC)</td>
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<td>- Prepared for the same time period</td>
<td>- Report on Internal Controls Related to Financial Reporting</td>
<td>- Includes recipient and auditor information, the Federal programs</td>
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<td>- Summary Schedule of Prior Audit Findings</td>
<td>- Report on Compliance</td>
<td>audited, a high-level overview of findings and, a statement certifying</td>
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<td>- Detailed status of corrective action for each prior-year finding until the</td>
<td>- Includes an opinion on whether programs are being administered in</td>
<td>the accuracy and completeness of the information reported on the form</td>
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<td>finding is corrected or finding is no longer valid</td>
<td>- compliance with laws and regulations</td>
<td>Opinion on Financial Statements and Schedule of Expenditures</td>
</tr>
<tr>
<td>- Corrective Action Plan</td>
<td>- Schedule of Findings and Questioned Costs</td>
<td>- This form must be signed by the auditor and the recipient</td>
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<td>- Addresses current-year audit findings made by auditor</td>
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- A final Single Audit Report includes the inputs listed above. Program-Specific Audit Report requirements will be detailed in a Program-Specific Audit Guidelines, to be issued by NTIA.

- Recipient is responsible for submitting the final Audit Report
  - Single Audit Reports are submitted to the Federal Audit Clearinghouse
  - Program-Specific Audit Reports are submitted to the DOC OIG and the awarding agency.
Example of an A-133 Audit Report

Example 13-2

Report on 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 (Unqualified Opinion on Compliance; Significant Deficiencies in Internal Control Over Compliance Identified)\(^1\)

Independent Auditor’s Report

We have audited Example Entity’s compliance with the types of compliance requirements\(^2\) described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Example Entity’s major federal programs for the year ended June 30, 20X1. Example Entity’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity’s management. Our responsibility is to express an opinion on Example Entity’s compliance based on our audit.\(^3\)

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards,\(^4\) issued by the Comptroller General of the United States; and OMB Circular A-133. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies in internal control over compliance, as defined above. These deficiencies were determined to be material weaknesses in internal control over compliance that do not allow for reliable financial reporting. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-1 and 20X1-2].\(^5\)

\(^{1}\) See footnote 1 in example 13-1.
\(^{2}\) See footnote 2.
\(^{3}\) See footnote 3.
\(^{4}\) See footnote 4.
\(^{5}\) See footnote 5.
Example of a Program-Specific Audit Report

Program-Specific Audit

the responsibility of Example Entity’s management. Our responsibility is to express an opinion on Example Entity’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards18 issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether compliance with the types of compliance requirements referred to above that could have a direct and material effect on [identify the federal program] occurred. An audit includes examining, on a test basis, evidence about Example Entity’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity’s compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its [identify the federal program] for the year ended June 30, 20X1. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1.1 and 20X1.2].

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity’s internal control over compliance with the requirements that could have a direct and material effect on its [identify the federal program] for the year ended June 30, 20X1. We did not express an opinion on Example Entity’s internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control or application of a control is such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected, and corrected, on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected, and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to

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18 See footnote 2

19 When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence would be omitted.

AAG-SLA 14.10

Funded by the American Recovery and Reinvestment Act of 2009

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Example of a Blank SF-SAC
What are audit findings?

- Findings are circumstances in which the recipient demonstrates programmatic, regulatory, financial, or control deficiencies
- Findings are reported by the auditor in the final Single Audit or Program-Specific Audit Report and SF-SAC
- Recipient may disagree with findings and submit its reasoning with the Audit Report
- Examples of findings include:
  - The recipient organization demonstrates inherent deficiencies in its financial system that impairs the ability to validate paid expenses to vendors under any of the audited Federal grant programs (or BTOP specifically)
  - The recipient has expensed benefits for project staff who are not full time, which is unallowable under the financial requirements of BTOP

During pre-award, the Advanced Grants Processing Team checked for applicant’s prior audit findings in order to understand potential financial or internal control risks of the applicant.
What are corrective action plans?

- Corrective actions plans are developed to provide remedy and resolution to the applicable regulatory, financial, or control deficiencies identified in the findings.

- The Grants Office reviews audit findings and any materials a recipient submits to protest a finding and discusses those issues with the Program Office. If necessary, the Grants Office may then prepare a corrective action plan for a finding in the form of an Audit Resolution Report.

- Examples of corrective actions include:
  - The recipient has been asked to adopt a financial system that will properly record A/R and A/P and to document and adopt processes to reconcile those accounts against one another and against allowable costs expensed to the applicable Federal programs.
  - The recipient will work with the applicable Federal programs to make a repayment of funds in accordance with the conditions of the award and may be asked to validate proper salary and benefit costs charged against other grant programs, such as BTOP in the event a single audit did not include BTOP in the audit.
What is the timeline for audit report submission and review?

- OIG and the Grants Office (NIST/NOAA) will review any reports identified as “qualified audit”
  - A “qualified audit” means the entity audited received audit findings
- Recipient’s response to the Audit Resolution Proposal should note actions already taken to correct any findings and detail any findings in which recipient disagrees with the OIG
- Grants Office may reach out to FPOs in inquire further into audit findings

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<tr>
<th>Audit Reporting Period</th>
<th>OIG Reviews Audit and Recommends Findings</th>
<th>Grants Office Prepares Audit Resolution Proposal</th>
<th>Audit Resolution Determination Finalized</th>
<th>Corrective Actions or Appeal Process Begins</th>
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<tr>
<td>- A-133 Audit Report due no later than 9-months after the audit reporting period, but no more than 30 days after received from auditor</td>
<td>- OIG has approximately 30 calendar days to review audit, recommend findings and send to recipient and Grants Office</td>
<td>- Grants Office has 30 – 60 calendar days, as specified by the OIG, to respond to findings. Grants Office may work with FPO during this period</td>
<td>- Grants Office and OIG collaborate on proposal and appropriate corrective actions</td>
<td>- Recipient has 30 calendar days from receipt of Audit Resolution Determination to appeal to OIG (see next slide)</td>
</tr>
<tr>
<td>- Program-Specific Audit Report due 90 days after recipient’s audit reporting period</td>
<td>- Recipient has a 30 day review period after receipt of recommended findings to report on corrective actions already taken and detail any findings in which it disagrees with the OIG</td>
<td>- If findings remain after a review of the OIG findings, the Grants Office drafts an Audit Resolution Proposal</td>
<td>- Grants Office has approximately 60 calendar days to send final Audit Resolution Determination to recipient</td>
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Funded by the American Recovery and Reinvestment Act of 2009
What is the timeline for audit resolution in event of an appeal?

- Recipient must appeal an Audit Resolution Determination to OIG within 30 calendar days. This is the **only** opportunity to appeal
  - Appeal does not stay audit-related debt, including recipient responsibility for subrecipient debt
  - Evidence provided to refute audit findings must be different from previous information provided
  - No extensions beyond the 30 days will be provided

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**Audit Resolution Timeline**

- **Audit Resolution Determination**
  - Grants Office provides Audit Resolution Determination to recipient detailing any remaining findings and corrective action plans

- **Appeal and Provide Documentary Evidence to OIG**
  - After receipt of Audit Resolution Determination, recipient has 30 calendar days to appeal and submit documentary evidence to the OIG

- **OIG Reviews Documentary Evidence**
  - OIG reviews evidence provided by recipient
  - Appeal stays the offset of funds by recipient against funds due to recipient
  - Appeal does not prevent establishment of audit-related debt, including responsibility for subrecipient debt, nor does it stop interest accruing on debt

- **Audit Resolution Determination Letter**
  - OIG notifies recipient of the results in an Audit Resolution Determination Letter, typically within 60 days of receiving appeal

- **Corrective Action Taken**
  - If Audit Resolution Determination is overruled or modified, corrective action is taken by agency and recipient
OIG & GAO Audits

- OIG and GAO may audit recipients at any time.
- OIG may review program or multiple programs for issues related directly to a recipient’s award (e.g., match, subrecipient monitoring).
- OIG and GAO may also audit awards to make determinations about NTIA’s monitoring and oversight of BTOP awards.
  - For example, an audit may review whether NTIA followed Commerce and OMB’s Do Not Pay procedures (i.e., verify eligibility by reviewing: the Social Security Administration's Death Master File, the General Services Administration's Excluded Parties List System, the Department of the Treasury's Debt Check Database, the Department of Housing and Urban Development's Credit Alert System or Credit Alert Interactive Voice Response System, and the Department of Health and Human Services' Office of Inspector General's List of Excluded Individuals/Entities) when recommending approval to the Grants Office of new key award personnel.
For any questions contact Aimee Meacham, BTOP Compliance Office, at AMeacham@ntia.doc.gov