

Frequently Asked Questions for DOE FY 2011 For-Profit Audit Guidance

June 2012

Questions Relating to Subrecipient Audit Requirements:

Question # 1: *We wanted to confirm our understanding based on a review of the Policy Flash 2012-39. If a for-profit subrecipient has expended DOE funding from a local University (i.e. funding not received directly from DOE), our understanding is that the subrecipient would not be subject to the DOE For-Profit audit requirement (DOE Audit Guide).*

Response # 1: This is correct. Subrecipients are not required to have 10 CFR 600.316 audits. That is, only direct awards from DOE are subject to the DOE Audit Guide and it does not apply to subawards.

Question # 2: *Consider the following example: XYZ For-Profit Entity has three DOE awards with total expenditures of approximately \$600,000 combined (none greater than \$500,000). One of them is a subaward from a direct recipient of DOE funds in the amount of approximately \$200,000. The inclusion or exclusion of the \$200,000 of subaward expenditures will determine whether XYZ For-Profit Entity needs an audit. How should this be handled for purposes of determining the audit requirement?*

Response # 2: As noted in the previous question and answer, only direct DOE awards are subject to the DOE Audit Guide. In the example provided in this question, XYZ For-Profit Entity would not be subject to the DOE Audit Guide because the \$200,000 subaward would not count towards the \$500,000 audit threshold.

Question # 3: *A for-profit entity expended over \$500,000 of DOE awards received from a state. As such, the for-profit entity would be considered a subrecipient of DOE funds. In reading Section C of Part I of the DOE Audit Guide, it defines when a compliance audit is required (i.e., over \$500,000) and refers to a for-profit recipient. Does the word "recipient" as used in this Section of the DOE Audit Guide only apply to recipients that directly receive the funds from DOE? Or is it inferring that any organization that expends DOE funds, received either directly or indirectly as a subrecipient, would be required to undergo an audit under the DOE Audit Guide?*

Response # 3: Subrecipients are not required to have 10 CFR 600.316 audits. Recipients as referred to in Section C of Part I are only intended to refer to for-profit entities that expend direct awards from DOE.

Question # 4: *ABC parent company expends DOE awards over \$500,000 received directly from DOE and, therefore, will have an audit of their DOE awards under the DOE Audit Guide and submit this audit and their financial statement audit to DOE. A wholly-owned subsidiary of ABC parent company expends DOE funds received indirectly from a State. Would the wholly-owned subsidiary's DOE funds have to be included in the ABC parent company's program-specific audit?*

Response # 4: Only direct DOE awards are subject to the 2011 DOE Audit Guide. Therefore, the wholly-owned subsidiary's DOE funds expended (received indirectly from the State) would not have to be included in ABC parent company's audit under the 2011 DOE Audit Guide.

Question # 5: *The Policy Flash 2012-39 indicates that 10 CFR 600.316 is no longer required by subrecipients. However, many of 2011 DOE audits are in process and do include indirect DOE awards from pass-through entities in the scope of the audit. Is the new guidance suggesting that these awards be removed from the scope of the audit and related audit report?*

Response # 5: No. If the auditor has already completed, or is close to completing, the audit of a subaward or subawards using either the FY 2010 DOE Audit Guidance or the Draft FY 2011 Audit Guidance, it is permissible for that audit to include the subawards in the scope of the audit. Going forward, however, subawards should not be included in the scope of the audit.

Questions Relating to Audit Reporting on Internal Controls:

Question # 6: *Section Q. AUDIT REPORTING contains the following language:
A report on internal control over compliance related to major awards or cluster of awards. This report shall describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the separate schedule of findings and questioned costs described below. The auditor's report(s) shall state that the audit was conducted in accordance with U.S. Department of Energy Audit Guidance: For-Profit Recipients and GAGAS **and include an opinion (or a disclaimer of opinion) as to whether the recipient has an internal control structure that provides reasonable assurance that it is managing Federal awards in compliance with Federal laws and regulations and the terms and conditions of the awards.***

The above bolded wording implies that the auditor would be providing an opinion on internal control over compliance. Is this DOE's intent? Or, is DOE expecting a report on internal control similar to what was issued under the 2010 DOE Audit Guide (i.e., only reporting material weaknesses and significant deficiencies noted during the audit). Section D refers to Chapter 14 of the AICPA Audit Guide which contains an example report on internal control similar to what was issued last year, but it is not an opinion. Similarly, the description of the testwork in section E also would indicate that DOE is looking for a report and not an opinion. An opinion on internal controls is a significant undertaking and an increase in what has been done previously.

Response # 6: The change in guidance (bolded above) was intended to be editorial and was not intended to create a new requirement for an opinion on internal control over compliance. The auditor should provide a report on internal control over compliance similar to that issued using the 2010 DOE Audit Guide.

Questions Relating to the Aggregation of Awards for Audit Purposes:

Question # 7: *At what level is the auditor expected to be auditing? The 2010 DOE Audit Guide defined a DOE Federal Award as "financial assistance that non-Federal entities receive directly from DOE or indirectly from pass-through entities.....When multiple awards are made to a recipient or subrecipient for projects under the same CFDA number, the term "award" shall refer to the awards in aggregate, and the audit of the awards shall be conducted at the aggregate CFDA level.)..." Adding to the confusion, the draft of the 2011 DOE Audit Guide that was released in advance of the issuance of the final 2011 DOE Audit Guide specified that awards could not be aggregated by CFDA and that language was removed in the final Guide. As it stands, the final 2011 DOE Audit Guide removed the definition of award and appears to have removed the ability to aggregate by CFDA number. It says: "When a for-profit recipient has multiple DOE awards and one or more of the awards have expenditures of \$500,000 or more, a compliance audit is required for each of the awards with \$500,000 or more in expenditures. The remaining awards do not require, individually or in the aggregate, a compliance audit. Recipients that have total expenditures of \$500,000 or more but that do not have any single award with expenditures of \$500,000 or more are required to have a compliance audit of the awards in the aggregate (i.e., as a cluster of awards). Awards audited as a cluster should share common compliance requirements." What is Energy's intention by removing the previous definition of award that included the CFDA aggregation notion? If it was to remove the ability to aggregate, this will likely increase the scope of the audits, significantly in some cases.*

Response # 7: The guidance eliminated the language from the draft 2011 DOE Audit Guide which specified that awards could not be aggregated by CFDA. In most cases auditors should continue to aggregate awards by CFDA number for audit purposes as required in the 2010 audit guidance. The revised guidance for 2011 does, however, permit auditors to use their professional judgment to determine that awards should not be audited in aggregate by CFDA number in particular circumstances. If the auditor determines that the awards should not be aggregated by CFDA number for audit purposes, the auditor should document the rationale for that determination. Since DOE has not designated certain groups of CFDA numbers as "clusters," no further aggregations across multiple CFDA numbers are recommended by DOE. The only exception to this is when recipients have total expenditures of \$500,000 or more but do not have any single award with expenditures of \$500,000. In this scenario, the auditor would aggregate all the awards (i.e., as a cluster of awards).

Question # 8: *Should we be reporting on all awards on the Schedule of Expenditures of DOE Federal Awards or just the awards that have expenditures of \$500,000 or more? Are we required to express an opinion on the whole SEFA?*

Response # 8: The auditor should only provide compliance opinions on awards that were audited and should not report on awards that were not audited. The auditor should identify all awards that were audited in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs. Awards that were not audited should not be included in the Summary of Auditor's Results section of the Schedule of Findings in Questioned Costs.

Additionally, the auditor is not required to report on the Schedule of Expenditures of DOE Federal Awards on either a standalone basis or in relation to the financial statements. However, it is expected that the auditor will perform any necessary audit procedures on expenditures reported on the Schedule as the basis for determining which awards they will have to audit.

Questions Relating to Audits for Entities without Continuing DOE Awards:

Question # 9: *There is a lot of uncertainty surrounding Section J on “Frequency of Audits.” It now says, “If previous audits under 10 CFR 600.316 have been performed which covered more than 75% of the costs of the DOE award, there were no findings in these audits, the recipient is considered low risk, and there are no other DOE awards still subject to 10 CFR 600.316 audits, then a final audit may be waived at the discretion of the Contracting Officer(s). closeout audit.” What does this mean? Confusion on this is somewhat related to the level of auditing in question in (1) above. That is, is the final audit that is being “waived” by Energy relating to a specific award within a CFDA or the entire CFDA. If it is an individual award, the reduction may not be as significant as Energy might have hoped.*

Response # 9: The contracting officer may waive the final closeout audit requirements for low-risk recipients who have no other DOE awards. Recipients who think they may be low-risk should discuss this with their contracting officer.