

## **4.5 Audit Requirements**

Audit requirements are now contained in 2 separate sub-sections. Subsection 4.5.1 contains the audit requirements for States, Local Governments and Non-Profit Organizations while subsection 4.5.2 contains the audit requirements for For-Profit Organizations.

### **4.5.1 Audit Requirements for States, Local Governments and Non-Profit Organizations**

(a) General. All States, Local Governments and Non-Profit Organizations that expend over \$500,000 in Federal funds in any year are required to have a single audit conducted in accordance with OMB Circular A-133. This requirement flows down to subrecipients that meet the dollar threshold. An independent auditor shall perform the audit in accordance with the Government Auditing Standards and must: 1) audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of Federal awards; 2) gain an understanding of internal control over Federal programs and 3) audit and provide an opinion on compliance with requirements for major programs.

Any entity that does not meet the threshold for expenditures is not required by OMB Circular A-133 to have a single audit performed. However, if a Contracting Officer determines special circumstances make a review or audit necessary, such a requirement should be included in the terms and conditions of the award as a special condition.

#### (1) Audit Objective

The single audit provides an independent, cost-effective tool for obtaining information on the recipient's financial management practices and administration of Federal funds. The audit does not provide detailed information on individual awards but will show whether or not the recipient has an adequate accounting system and management controls, financial statements prepared in accordance with general accepted practices, accurate and reliable reports, and expenditure of Federal funds in accordance with Federal laws and regulations.

#### (2) Reporting Requirements

The Single Audit Report is submitted to the Federal Audit Clearinghouse (<http://harvester.census.gov/sac>) via the Internet and Standard Form SAC (SF-SAC) "Data Collection Form for Reporting on Audits of States, Local Governments and Non-profits Organizations."

The single audit report includes:

- the financial statements;
- a schedule of expenditures of Federal awards;
- auditor's opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards;
- auditor's report on internal control and compliance pertaining to financial reporting;

- auditor’s report on internal control and opinion on compliance pertaining to major programs;
- auditor’s schedule of findings and questioned costs;
- auditee’s corrective action plans; and
- a summary schedule of prior audit findings which includes planned and completed corrective actions.

(b) Recipient and Auditor Responsibilities

(1) Recipient Responsibilities

Recipients are responsible for managing their Federal awards. This is accomplished by establishing and maintaining internal controls that provide assurances that all requirements can be met; establishing and maintaining an accounting system that uses general accepted accounting principles and that can adequately accumulate and segregate costs; and promptly and accurately preparing financial statements and other related documents.

Recipients are responsible for identifying Federal awards received and expended and for preparing financial statements and a Schedule of Expenditures of Federal Awards. Recipients are responsible for ensuring that the audit required by OMB Circular A-133 is completed and submitted to the Clearinghouse on SF-SAC within nine months of the end of its fiscal year.

Recipients are responsible for retaining an independent auditor; providing the auditor with all necessary information for the audit; and submitting the audit to the Clearinghouse.

Recipients are responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the recipient shall prepare a summary schedule of prior audit findings. The recipient shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The summary schedule shall also include findings reported in the prior audit's summary schedule of prior audit findings except findings listed as corrected. Subpart C, Section .315 of OMB Circular A-133 provides specifics on the summary schedule and the correction action plan.

Recipients are also responsible for monitoring sub-recipients that are required to submit an audit based on the expenditure of Federal funds under their project.

(2) Auditor Responsibilities

The auditor is responsible for performing the audit in accordance with generally accepted government auditing standards, i.e. “The Yellow Book”; assessing whether the auditee has complied with laws, regulations and agreement provisions that have a direct effect on the Federal programs where funds have been expended; testing the internal controls and financial management systems; and follow-up on prior audit findings and assess the reasonableness of the corrective plans and actions.

The auditor is responsible for preparing a report which includes an opinion on whether the financial statements are presented fairly; statements on internal controls; a statement on compliance which includes an opinion as to whether the auditee complied with the laws, regulations and agreement provisions; and a schedule of findings.

Audit findings are required to include: (1) a deficiency in internal controls; (2) a material noncompliance with the laws, regulations or agreement provisions; (3) detected fraud; (4)

misrepresentation of the status of a prior finding; (5) questioned costs which exceed \$10,000 for non-major programs; and (6) questioned costs which exceed \$10,000 for each type of compliance requirement for major programs.

The auditor is required to assist the recipient in the preparation of the data collection form, SF-SAC, by completing specific components and sections.

### (3) Responsibilities of Pass-Through Entities

A pass-through entity is responsible for monitoring its subrecipient(s) and ensuring that those that expend Federal funds meet the requirements of OMB Circular A-133.

## (c) Agency Responsibilities

Federal agencies are responsible for ensuring that audits are completed and reports received in a timely manner and in accordance with the requirements of this part; for providing technical advice and counsel to auditees and auditors as requested; for issuing a management decision on audit findings within six months after receipt of the audit report; and for ensuring that the recipient takes appropriate and timely corrective action. Agencies are also responsible for providing annual updates to the A-133 compliance supplement.

An agency may have additional responsibilities depending on the amount of funding provided to a recipient. An agency is given the designation of cognizant agency or oversight agency if it has provided the most direct funding to the recipient. The cognizant designation is used when the funding level is over \$50 million.

If a program specific audit is required, the agency is responsible for all levels of agency responsibilities. This includes providing program specific audit requirements.

## (d) Contracting Activity Responsibilities

Each Contracting Activity is responsible for ensuring agency compliance with the requirements of OMB Circular A-133 at the local level. Each Contracting Activity should designate a responsible person for retrieving audits with findings under that activity's cognizance. The named person will be required to have a password and user ID for the secured portion of Clearinghouse database. Passwords and user IDs should be coordinated through the Office of Procurement and Assistance Policy.

Each Contracting Activity should implement and maintain a tracking system that ensures that audit findings and recommendations are monitored through resolution for each recipient that reports audit findings that affect awards made at that activity. SF-SAC Part III, Item 9 identifies the Federal agencies which have relevant findings in the audit report. The tracking system should be able to track the recipient, the fiscal year(s) and the stage of completion of the corrective action plan(s). The system should be searchable to aid in the completion of management reports required by OMB Circular A-133.

## (e) Contracting Officer Responsibilities

The Contracting Officer is responsible for including the appropriate audit requirements in the award instrument; monitoring compliance with audit requirements; reviewing problem audits; and approving and monitoring corrective action plans to resolve audit findings and

recommendations. The Contracting Officer should ensure that audits are completed and submitted as part of the administration of the award's reporting requirements.

(f) Other Uses for the Clearinghouse

(1) Pre-Award. Contracting Officers are responsible for determining the business and financial management capabilities of potential recipients. The SF-SAC in the Clearinghouse database can assist the Contracting Officer in making the determination that a potential recipient has an acceptable accounting system and internal controls.

Contracting Officers should check the database for previous audit reports, questioned costs, corrective action plans and their resolution, and document the file with the findings from the review. Copies of the supporting audits may be obtained from the Clearinghouse if not previously received by the Contracting Officer.

Potential recipients with prior audit findings and corrective action plans should be considered for special conditions, payment by reimbursement or other controls to ensure that the funding is properly used.

(2) During the Project Period. The Clearinghouse should be checked when reviewing the continuation award package just as in the pre-award phase. Recipients that were held to special conditions or controls that have shown improvement in their audits should have those conditions or controls lessened or removed. New conditions or controls should be placed on recipients that have had negative audit findings since the start of the project or that have not submitted the audit(s).

(3) Post-Award and Close-out. Audits should be reviewed during the close-out process to ascertain if any negative audit findings will affect the agreement. An agreement should not be retired if the audit findings would impact the budget or other terms and conditions.