

4.5.2 Audit Requirements for For-Profit Organizations

(a) General. All For-Profit Organizations that expend over \$500,000 in Federal funds for a CFDA in any year are required to have an audit conducted in accordance with paragraph (b) of 10 CFR 600.316. This requirement flows down to For-Profit subrecipients that meet the dollar threshold. An independent auditor shall perform the audit in accordance with the Government Auditing Standards and must: 1) gain an understanding of internal control structures over Federal programs and 2) audit and provide an opinion on compliance with requirements.

The audit generally should be made a part of the regularly scheduled, annual audit of the recipient's financial statements.

When a For-Profit recipient or subrecipient has multiple DOE awards and the awards in aggregate have expenditures of \$500,000 or more of DOE funds for a CFDA in any year, a compliance audit is required for each CFDA under which there is a total of \$500,000 or more in DOE expenditures. If there are any CFDAs under which the aggregate expenditures do not meet the \$500,000 threshold, the awards under these CFDAs do not require, individually or in the aggregate, a compliance audit.

(1) Audit Objective. The audit(s) must determine and report on whether recipients have internal control structures in place that provide reasonable assurance that they have complied with DOE regulations and the terms and conditions of the awards.

(2) Reporting Requirements. Audits in compliance with 10 CFR 600.316 are to be performed and submitted within six months of the end of the recipient's fiscal year. One copy of the audit is to be submitted to the DOE Contracting Officer at: <https://www.fedconnect.net/fedconnect/default.aspx> or other location specified in the award ; a second copy must be submitted to the DOE CFO at DOE-Audit-Submission@hq.doe.gov

(3) Content of Guidance. DOE's Office of Risk Management in conjunction with DOE's Office of Procurement and Assistance Policy and the American Institute of Certified Public Accountants has developed specific For-Profit Audit Guidance Parts I through IV for use by independent auditors in conducting the audits required under 10 CFR 600.316. This guidance is available on the Financial Assistance Forms page of the Office of Management (MA) home page, under the heading under the 'Coverage of Independent Audits': http://management.energy.gov/business_doe/business_forms.htm

- Part I of the For-Profit Audit Guidance contains General Audit Guidance;
- Part II is the General Compliance Supplement;
- Part III is the Program-Specific Compliance Supplement. At this time there are no program-specific compliance requirements separate from general compliance supplement.
- Part IV contains Matrix of DOE's major CFDA programs along with specifics on the type of compliance requirements for each CFDA. Note that as explained in the footnote, the matrix may not encompass all CFDA numbers for which there are For-Profit Recipients or Subrecipients.

The audit report includes the following:

- audited financial statements;
- a schedule of DOE awards along with expenditures;
- auditor's opinion on the financial statements and an opinion on the schedule in relation to the financial statements;
- auditor's report on internal control over compliance pertaining to major awards or cluster of awards;
- auditor's report on compliance with laws, regulations, and the provisions of contracts or grant agreements.
- 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.

(For further details see for-Profit Audit Guidance Part I available on the Financial Assistance Forms page of the MA home page, under the heading under the 'Coverage of Independent Audits' at http://management.energy.gov/business_doe/business_forms.htm)

(b) Recipient and Auditor Responsibilities

(1) Recipient Responsibilities. Recipients are responsible for managing their DOE 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 DOE awards received and DOE funds expended and for preparing financial statements and a Schedule of Expenditures of DOE Awards. Recipients are responsible for ensuring that the audit required by 10 CFR 600.316 is completed and submitted to the Contracting Officer and the DOE CFO within six months of the end of the recipient's fiscal year.

Recipients are responsible for identifying, in its accounts, all DOE awards received and DOE funds expended and the DOE programs under which they were received. DOE program and award identification should include, the CFDA title and number, award number and year, and name of the pass-through entity, if applicable.

Recipients are responsible for identifying and maintaining internal control over DOE awards to provide reasonable assurance that DOE awards are managed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its DOE awards.

Recipients are responsible for complying with laws, regulations, and the provisions of contracts or grant agreements related to each of its DOE awards.

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

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 DOE 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. Part I of For-Profit Audit Guidance provides specifics on the summary schedule and the correction action plan.

Recipients are also responsible for ensuring that For-Profit sub-recipients submit an audit to the prime recipient based on the expenditure of DOE funds under their project as required.

(2) Auditor Responsibilities. The auditor is responsible for performing the audit in accordance with Generally Accepted Auditing Standards (GAAS), including Generally Accepted Government Auditing Standards (GAGAS) and AICPA Statements on Auditing Standards (SAS) 117. For-profit recipients should submit audited financial statements to DOE as a part of the compliance audit. Subrecipients should submit audited financial statements to the pass-through entity as part of the compliance audit. Auditors do not need to conduct the financial statement audit in accordance with GAGAS, but should instead conduct the financial statement audit in compliance with either GAAS or standards put in place by the Public Company Accounting Oversight Board (PCAOB), as appropriate.

The auditor is responsible for assessing whether the auditee has complied with laws, regulations and agreement provisions that have a direct effect on the DOE awards where funds have been expended; testing the internal controls; and following up on prior audit findings and assessing the reasonableness of the corrective plans and actions.

The auditor is responsible for preparing a report which includes 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:

- A. significant deficiencies or material weakness in internal controls;
- B. material noncompliance with the laws, regulations or agreement provisions;
- C. detected fraud;
- D. misrepresentation of the status of a prior finding;

E. known questioned costs which exceed \$10,000 for a DOE award which is not audited as a separate award;

F. questioned costs which exceed \$10,000 for each type of compliance requirement for an award or cluster of awards;

G. The circumstances concerning why the auditor's report on compliance for awards or cluster of awards is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for DOE awards.

The auditor is required to assist the recipient in the preparation of the information required in Part I of the For-Profit Audit Guidance 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 DOE funds meet the requirements of 10 CFR 600.316.

(c) Agency Responsibilities

DOE is responsible for ensuring that annual audits are completed and reports received in a timely manner and in accordance with the requirements of 10 CFR 600.316 as implemented by Part I of the For-Profit Audit Guidance; 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. Corrective action should be initiated within 6 months of the receipt of the audit report and should proceed as rapidly as possible.

In the case of an audit of a single award, the DOE office which made the award has the above responsibilities, including making the management decision. In the case of an audit of a multiple awards under a CFDA, the DOE office which awarded the preponderance of the DOE funds under that CFDA must take the lead on performing the above responsibilities and must coordinate its activities with the other DOE offices whose awards were part of the same compliance audit.

(d) Contracting Activity Responsibilities

Each DOE Contracting Activity is responsible for ensuring agency compliance with the requirements of 10 CFR 600.316 at the local level as described in section(c) above.

Each DOE 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.

The tracking system should be able to track the recipient, the CFDA, the fiscal year(s) and the stage of completion of the corrective action plan(s).

(e) Contracting Officer Responsibilities

The Contracting Officer (CO) 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.

In the case of an audit of a single award, the current CO for the award has the above responsibilities, including approving and monitoring corrective action plans. In the case of an audit of a multiple awards under a CFDA, the current CO for the award with the preponderance of the DOE funds under that CFDA must take the lead on performing the above responsibilities and must coordinate its activities with the other COs whose awards were part of the same compliance audit.

The For-Profit Audit Guidance identifies the format for a schedule of audit findings and their disposition to be prepared by the recipient being audited (the auditee) and to be verified by the independent auditor. This schedule will assist the CO in their review of the current year audit(s).

The CO shall ensure that audits are reviewed during the close-out process to ascertain if any negative audit findings affect the agreement. An agreement should not be retired if the audit findings would impact the budget or other terms and conditions.

(f) Other Uses of Audit Information

(1) Pre-Award. Contracting Officers are responsible for determining the business and financial management capabilities of potential recipients. They can consider reviewing previous audit reports, questioned costs, corrective action plans and their resolution when making the determination that a potential recipient has an acceptable accounting system and internal controls.

However, since there is no central location of DOE audit information for For-Profit entities, it will be up to the CO to determine if the applicant has previous DOE awards which met the threshold. If this is the case, the CO would need to contact the offices which made the previous awards and ask for a copy of the schedule of previous audit findings and their disposition.

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 CO would have to follow the same process 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.