Who's Looking Over Your Shoulder...and What Are They Looking for?

Federal Awards Compliance Training
Morehouse College
Presented by Robert M. Lloyd
August 19, 2010
Session Topics

- Why Should We Care About Audits?

- The Two Prongs of Federal Grant Audit Policy
  --- Non-federal Audits
  --- Federal Audits

- OMB Circular A-133 Audits—The Key Responsibilities and Policies

- What’s the Likelihood of a Federal Audit?

- What Aspects of Federal Fund Management are the Auditors Looking for?
  --- Cost Allowability
  --- Effort Reporting
  --- Cost Transfers
  --- Proper Procurement of Goods and Services
  --- Limitations on the Award
Why Should We Care About Audits?

- The Key Federal Tool for Accountability
- Adverse Audit Findings Can Trigger:
  --- Imposition of Special Conditions
  --- Disallowance of Cost
  --- Other Authorized Sanctions
  --- "Rubber Hose Treatment"
  --- "De Facto" Debarment
Federal Audit Policy

- Audits Performed by Non-federal Auditors
  --- Independent State and Local Government Auditors
  --- Independent Public Accountants
- Authority
  --- Single Audit Act of 1984 (as amended)
  --- Office of Management and Budget Circulars A-110 and A-133
Non-Federal Audits

- Audits of Organizational Financial Statements
- OMB Circular A-133 Audits
- Agreed-upon Procedures Engagements
Federal Audit Policy

- Audits Performed by Federal Auditors
  --- Government Accountability Office (GAO)
  --- Offices of Inspectors General (OIG)
  ----- Accounting Firms Under Contract
  --- Defense Contract Audit Agency
- Authority
  --- Budget and Accounting Act of 1921
  --- Inspector General Act of 1978 (as amended)
Federal Audits

- Financial Audits
- Performance Audits
- Investigations

- Congressional Requests
- Annual OIG Audit Plans
- Hotline Complaints and Other Outside Influences
Required Audit Standards

- GAAS—Issued by the Auditing Standards Board, AICPA
- GAGAS (aka "The Yellow Book")—Issued by the Comptroller General of the U.S.

- General Standards
- Field Work Standards
- Reporting Standards
OMB Circular A-133—The Basics

- Covers “non-federal entities”
- Covers the fiscal year of the entity
- Covers “federal awards”
- Triggered by designated threshold of annual expenditures of federal awards (currently $500,000 from all sources)
- Relationship of other requirements
OMB Circular A-133—What Are the Objectives?

- Determine accuracy of financial statements
- Determine accuracy of the schedule of expenditures of federal awards
- Assess design and operation of "internal controls"
- Assess compliance with laws, regulations, and award conditions
Audit Vulnerabilities

- Unallowable Cost
- Unapproved Cost
- Unreasonable Cost
- Unsupported Cost

- "Significant Deficiencies"
- "Material Weaknesses"
Unallowable Cost

- Eligible Activities under the Award
- Allowable Cost under Circular A-21
  --- General Tests of Allowability
  --- "Selected Items of Cost"
  ---- Allowable
  ----- Allowable Under Certain Circumstances
  ----- Allowable with Prior Approval
  ----- Allowable with Approval
  ----- Unallowable
Unapproved Cost

- The definition of "prior approval"
- Evidence of prior approval
- Types of prior approvals
  --- Project
  --- Personnel
  --- Budget
  --- Cost
Unreasonable Cost

- The “prudent person” test
- Role of “sound business practices”
- Role of “arms length bargaining”
- Role of other non-grant laws and regulations
Unsupported Cost

• Sufficient convincing evidence
• Types of evidence
  --- Physical
  --- Testimonial
  --- Documentary
  --- Analytical
Award Documentation Vulnerabilities

- Effort Reporting
- Cost Transfers
- Procurement of Goods and Services
- Cost Sharing
Effort Reporting

- Required under OMB Circular A-21 (Appendix A, Paragraph J10(b))
- Employee Compensation is "Material" to Many Federal Awards
- "Time and Effort Reporting" is a Specific Risk Factor Mentioned in Circular A-133
- Numerous Federal Audits Have Questioned College and University Practices
Effort Reporting—Federal Concerns

- Cost Recovery Exceeding Actual Costs
- Charges Incorrectly Skewed Toward the Federal Government
- Failure to Follow Institutional Policies
- Certifications by Persons Lacking "First Hand Knowledge" or "A Suitable Means of Verification"
Effort Reporting—The Key Standards

- Documentation Retained Not Submitted
- Prepared After-the-Fact
- Disclosure of Full Workload
- Credible Endorsement/Signature
- Reliance from the "Bottom Up"
- Timely Completion
- Institutional Policies Govern Handling of Level of Precision, Supplemental Compensation, Incidental Work, etc.
Cost Transfers

• Federal Policy on Project Funding Deficiencies
• Cost Transfer Policy
  --- NIH Model
  --- Written Documentation
  --- “To correct an accounting error” = NOT GOOD ENOUGH
Procurement of Goods and Services

- Basis for contractor selection
- JOFOC—Justification for lack of competition
- Documentation of cost or price analysis
- Documentation of contractor performance
Cost Sharing

• The "Non-federal Share" of the Project
• Sources
  --- Cash Expenditures for Allowable Costs
  --- Third Party In-kind Contributions
• Documentation
  --- Volunteer Services
  --- Basis of Valuation
Control Deficiencies

- The Concept of "Reasonable Assurance"
- Internal Controls
  --- Over Assets
  --- Over Reporting
  --- Over Compliance
- Deficiencies
  --- Material Weaknesses
  --- Significant Deficiencies
QUESTIONS??

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