

# **Grant Audit Readiness in a Pandemic Environment**

---

**Presented by Bob Lloyd**  
**October 18, 2021**

# Federal Grant Audit Policy

- Two prongs
- The Inspector General Act (as amended)
  - Intent: prevent and detect “fraud, waste and abuse”
  - Reliance on non-federal audit to the extent “practicable”
- The Single Audit Act (as amended)
  - Intent: improve management of federal funds
  - OMB role to issue “policies, procedures, and guidelines”

# Developments at the Federal Level

- Enactment of the CARES Act and the ARP Act
  - Significant funding increases for the OIG's
  - Formation of the Pandemic Recovery Accountability Committee (PRAC)
  - Ongoing concerns about the quality of non-federal audits
- Federal single audit quality assessments

# What to Expect from the OIG

- Advance notification...normally
- Entrance conference
- Conduct of the field work
- Exit conference
- Draft audit report
- Views of auditee management
- “Management decision” by awarding agency
- Grounds for appeal

# Single Audit Fundamentals

- Annual audit requirement
- Trigger: Expenditure of \$750,000 in federal awards from all sources
- Audit objectives
  - Accuracy of financial statements and the Schedule of Expenditures of Federal Awards (SEFA)
  - Proper design and operation of internal controls
  - Compliance with laws and regulations that could have a “direct and material effect” on financial claims

# Auditee Single Audit Responsibilities

- Prepare financial statements and SEFA
- Establish and maintain **effective** internal controls that provide **reasonable assurance** about compliance with laws, regulations, and award terms and conditions
- Comply with laws, regulations, and award terms and conditions
- Arrange for the single audit
- Prepare the summary schedule of prior audit findings
- Prepare and implement the corrective action plan, if necessary
- Submit, in cooperation with the auditor, the audit reporting package

# What to Expect from the Independent Auditor

- Evaluation of the risk of non-compliance
- Factors considered:
  - Current and prior audit experience
  - Multiple internal control structures
  - Past audit findings
  - Oversight by federal agencies and pass-through entities
  - Inherent risk of the program
    - Complexity of the program
    - Nature of expenditures (e.g., personnel, procurement)
    - Phase of the program at the federal level
    - Phase of the program at the auditee

# Help for the Auditor

- OMB's *Compliance Supplement*
- *Supplement* to what?
- Collaborative federal effort
- An annual opportunity for federal emphases  
(Past examples: ARRA; Hurricanes; FFATA)
- Current version: COVID, COVID, COVID



# Scope of the Single Audit--Compliance

- For Assistance Listing (CFDA) programs covered
  - Required areas of compliance testing
  - Suggested audit procedures
- For Assistance Listing (CFDA) programs not covered
  - Instructions about audit steps
  - A “safe harbor” for auditors (2 CFR 200.514(d)(3))
    - For identifying compliance requirements—YES
    - For audit procedures—NO
  - An “audit readiness checklist” for auditees!

# The 2021 *Supplement*

- Main volume issued on August 13
- How it's organized and why that's important
  - Part 2--Matrix of Compliance Requirements
  - Part 3—Compliance Requirements
  - Part 4—Agency Program Requirements
  - Part 5—Clusters of Programs
- Includes designation of eight “higher risk” programs
- Two expected *Addenda* to include major COVID related programs

# Opening the Door with the Matrix

- The “Cliff’s Notes” of federal grant administration
  - 12 areas of administrative compliance (actually more)
  - Federal agencies pick 6 for audit coverage
  - Relying on Assistance Listing (CFDA) Numbers drawn from the auditees SEFA
- Federal awarding agencies and pass-through entities are required to provide the Assistance Listing Numbers in award agreements
- Some existing federal programs received enhanced funding under COVID-19 related legislation

# Components of Part 3 Entries

- Compliance requirements that **must** be tested (with statutory and regulatory citations)
- Audit objectives—auditor’s role in determining whether actions have been taken
- Suggested audit procedures
  - What steps should the auditor take?
  - What documentation is likely to be examined?

# General Compliance Requirements Identified

- Activities Allowed or Unallowed
  - “Eligible activities”
- Allowable Costs/Cost Principles
  - General tests
  - “Selected” items
  - Indirect cost recovery
- Cash Management
  - Timely drawdown and disbursement
  - Size of drawdowns
  - Interest earnings and recovery

# Compliance Requirements (Continued)

- Eligibility (Recipients, Subrecipients, Program Beneficiaries)
- Equipment Management
  - Property records
  - Timely effective inventory
- Real Property Management
- Matching/Cost Sharing
- Level of Effort (Maintenance of Effort)
- Earmarking

# Compliance Requirements (Continued)

- Performance Period
  - Pre-award costs
- Procurement
  - Non-competitive transactions
  - Minimum records
  - Cost or price analysis
- Suspension and Debarment
  - Check SAM.gov (Excluded Parties List System)
- Program Income
  - Received
  - Expended on allowable cost
  - FIFO

# Compliance Requirements (Continued)

- Reporting
  - Financial
  - Performance
- Subrecipient Monitoring
  - CCR and DUNS numbers
  - Mandatory steps (2 CFR 200.332(d))
  - Subrecipient audit verification (2 CFR 200.332(f))
- Special Tests and Provisions
  - Federal agency priority matters
  
- Auditor's judgment about other areas where noncompliance could be material to the federal program
  - Federal agency risk alerts
  - OMB designation of higher risk programs



# Connecting to Parts 4 and 5

- Part 4

- “Agency” Program Requirements

- 239 Separate Assistance Listings

## Part 5

- Clusters of Programs

- Multiple Assistance Listings that are subject to the same compliance requirements

# Cautions about Applicability of Compliance Requirements

- KEY: Communications from federal awarding agencies or pass-through entities **in the award agreements**
- Agency “guidance”
- Steep learning curves
- Revisions to 2 CFR 200 (8/13/20)
- OMB Administrative Flexibility Memorandum (3/19/21)
- OMB FAQ’s on 2 CFR (5/4/21)

# A Few Other “Audit Alerts”

- Beware of “back door requirements”
- Interpreting the requirements--Who to call (Appendix III— Agency liaison and program contacts)
- Advice on testing procedures—Who is the auditor going to call (Appendix III—Inspector General Office contacts)
- Study the “atmosphere”
  - Federal inspectors general website ([www.ignet.gov](http://www.ignet.gov))
  - Pandemic Recovery Accountability Committee website ([www.prac.gov](http://www.prac.gov))
  - Federal Audit Clearinghouse website ([harvester.census.gov/facweb](http://harvester.census.gov/facweb))

# Questions

- Now
  - Later
- Bob Lloyd
- Telephone: (864) 235-8680
- E-mail: [consultlloyd@aol.com](mailto:consultlloyd@aol.com)