

Introduction to External Audit Followup

U. S. Department of Education
Office of Chief Financial Officer

Financial Improvement and
Post Audit Operations

Audit Followup Curriculum

- Overview of Auditing and Audit Followup
 - ✓ 1 day
 - ✓ Prerequisite to other courses
- Introduction to External Audit Followup
 - ✓ 1.5 days
 - ✓ Prerequisite to Workshop course
- Workshop on External Audit Resolution
 - ✓ 2 days

What are external audits?

- Audits of external entities for which ED provides funding
 - ✓ Inform ED officials about activities performed under contracts, grants or cooperative agreements
 - ✓ Major type of external audit is the Single Audit
- Non-Federal auditors, GAO, and ED-OIG perform external audits

What are external audits? (cont.)

- External audits report whether
 - ✓ Applicable statutes, regulations, standards, budgetary requirements and policies and procedures are followed
 - ✓ Fiscal and other operations are conducted in a legal, efficient and economical manner
 - ✓ Contract, grant or cooperative agreement terms and conditions are fulfilled

What is the framework for accountability: external audits?

- OMB Circulars
 - ✓ Set forth rules for Federal agencies
 - ✓ For our purposes, apply to ***external audits***
 - Administrative requirements
 - Cost principles

<http://www.whitehouse.gov/omb/circulars/index.html>

What is the framework for accountability: external audits? (cont.)

- OMB Circulars - Administrative Requirements
 - ✓ A-102
 - ✓ A-133
 - ✓ A-110

What is the framework for accountability: external audits? (cont.)

- OMB Circulars - Cost Principles
 - ✓ A-21 (2 CFR 220)
 - ✓ A-87 (2 CFR 225)
 - ✓ A-122 (2 CFR 230)

What are the major components of an OIG external audit report?

- Background
- Audit results
 - ✓ Findings
 - ✓ Recommendations
 - ✓ Auditee's comments
 - ✓ OIG response
- Objective, scope, and methodology
- Administrative matters
- Attachments

What is a single audit, and when and why are single audits required?

- All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit, in accordance with:
 - ✓ Single Audit Act Amendments of 1996
 - ✓ OMB Circular A-133
 - ✓ OMB Circular A-133 Compliance Supplement
 - ✓ *Government Auditing Standards*
- Entities expending less than \$500,000 in a year
 - ✓ Exempt from Federal audit requirements
 - ✓ Must make records available for review or audit by Federal agencies or pass-through entities (non-Federal entities)

What are the major components of a single audit?

- Data Collection Form
- Financial statements
- Internal control report
- Compliance report
- Audit followup

What issues of compliance do auditors consider for ED programs?

- The Single Audit Compliance Supplement (SACS) helps auditors to plan their work
- Includes
 - ✓ Crosscutting requirements
 - ✓ Program specific requirements

Single Audit Compliance Supplement – Matrix of Requirements

- Matrix of Requirements lists types of requirements and whether they apply, or normally would not apply to each ED CDFA number
 - ✓ **A** - Activities Allowed or Unallowed
 - ✓ **B** - Allowable Costs/Cost Principles
 - ✓ **C** - Cash Management
 - ✓ **D** - Davis-Bacon Act
 - ✓ **E** - Eligibility

Single Audit Compliance Supplement – Matrix of Requirements (cont.)

- ✓ **F** - Equipment and Real Property Management
- ✓ **G** - Matching, Level of Effort, Earmarking
- ✓ **H** - Period of Availability of Federal Funds
- ✓ **I** - Procurement and Suspension and Debarment
- ✓ **J** - Program Income
- ✓ **K** - Real Property Acquisition/ Relocation Assistance
- ✓ **L** - Reporting
- ✓ **M** - Subrecipient Monitoring
- ✓ **N** - Special Tests And Provisions

Single Audit Compliance Supplement – Program Specific Requirements

- SACS also includes specific requirements for education programs listed by CFDA number
- Program specific information includes
 - ✓ Objectives
 - ✓ Procedures
 - ✓ Applicable compliance requirements, including special tests and provisions
 - Specific compliance requirements
 - Past problems
 - Audit objectives
 - Suggested audit procedures

What are the components of external audit followup?

- Databases
 - ✓ AARTS
 - ✓ FAC
- Process
 - ✓ Distributing/processing/assigning
 - ✓ Triage
 - ✓ Identifying resolution approaches
 - ✓ Issuing determination letters
- ✓ Managing appeals, settlements, legal remedies
- ✓ Closing audit
- ED Stakeholders
 - ✓ Principal Offices
 - ✓ OCFO
 - ✓ OS/DS-RMS
 - ✓ ED-OIG
 - ✓ OGC
 - ✓ OALJ

Who are the ED players/stakeholders in external audit followup?

- Principal Offices
- OCFO
- OS/DS-RMS
- ED-OIG
- OGC
- OALJ

In general, what is the process for external audit followup?

- Distributing/processing/ assigning
- Triage
- Identifying resolution approaches
- Issuing determination letters
- Managing appeals, settlements, legal remedies
- Closing audit

What is AARTS and how is it used for external audit followup?

- The Audit Accountability and Resolution Tracking System (AARTS) is a web-based application to assist ED's audit reporting and follow-up

What is a step-by-step process to resolve external audits?

- Stage 1 – Determining What Happened
- Stage 2 – Determining the Options
- Stage 3 – Preparing a Decision Letter
- Stage 4 – Following Up and Monitoring

Communicating Within ED

- Grant history
- Program staff
- Handbooks and guidance
- OGC
- Principal Offices

Managing the Process

- Ensure timeliness
- Triage
- Assess findings and efficiently gather information
- Expedite resolution

Stage 1

- Determining what Happened
 - ✓ Finding facts
 - ✓ Assessing actions the auditee has taken
 - ✓ Assessing the seriousness of the finding

Assessing Actions the Auditee has Taken

- Without questioned costs
- With questioned or unsupported costs
- With questioned costs other than unsupported costs
- With unsupported costs

Assessing the Seriousness of the Finding

- Recurrence
- Nature
 - ✓ Type
- Scope
 - ✓ Questioned costs versus procedural problems

Stage 2

- **Determining the Options**
 - ✓ Assessing all data collected and reaching conclusions about evidence to determine range of supportable actions
 - ✓ Determining resolution approach

Reaching Conclusions about Evidence to Determine Supportable Actions

- Review work papers and other data collected to see what resolutions options they support
- Determine appropriate course of action that can be supported by the evidence
- Discuss with appropriate ED offices and staff members

Determining a Resolution Approach

- **Abbreviated**
 - ✓ Already corrected or in process of correction
 - ✓ Not considered major or substantial
- **Full**
 - ✓ Substantial or serious
 - ✓ Monetary or program compliance
 - ✓ Recurring

Providing Technical Assistance

- Supports both types of resolution
- Provide assistance identified in the audit resolution process
- Document all technical assistance

Stage 3

- Preparing a Decision Letter
 - ✓ Writing a decision letter
 - ✓ Making a prima facie case (if necessary)

Preparing and Issuing a Decision Letter

- Program Determination Letter (PDL)
- Criteria for resolution
 - ✓ *Prima facie* case
- Streamlining PDLs
- Document resolution

Stage 4

- Stage 4 – Following up and Monitoring
 - ✓ Appeals and settlement agreements
 - ✓ Following up/ monitoring resolution decisions and corrective actions

Following Up on Resolution Decisions and Corrective Actions

- Office responsible for resolution must follow up to ensure corrective measures have been taken
 - ✓ Includes collection of liabilities
 - ✓ Monitoring
- Appeals
- Settlement agreements

What is the difference between closing a finding and closing the external audit?

- A ***finding*** is closed when
 - ✓ Auditee has implemented corrective actions
 - ✓ Government has collected all funds
- The ***audit*** is closed when
 - ✓ All findings are closed in AARTS
 - ✓ Any appeals have been addressed