

FEDERAL PROGRAM AUDITS



Florida Association of State and Federal
Education Program Administrators
September 13, 2016

Agenda

- ❖ How a Federal program is selected for audit.
- ❖ What the auditor looks for in a Federal major program audit.
- ❖ 2014-15 Elementary and Secondary Education Act (ESEA) program audit findings.
- ❖ Uniform Guidance Requirements and Federal program audits going forward.



Auditor General Audit Schedule

All school districts are required to have financial and Federal audits performed annually.

- For the 37 school districts with population of 150,000 or less, the Auditor General's Office performs the audit each year. Section 11.45(2)(d), F.S.
- For the 30 school districts with populations of 150,000 or more, the Auditor General's Office performs the audit once every 3 years and other independent certified public accountants perform the audits in interim year. Section 11.45 (2)(e), F.S.

Audits of Federal Programs

Single Audit Act audit:

- Required annually if a non-Federal entity expends \$750,000 or more in Federal funds during the fiscal year.
- Includes the District's financial statements and Federal awards.

Audits of Federal Programs

Program audit:

- Required under the Single Audit Act.
- Selection of programs determined based on guidance provided by the Office of Management and Budget (OMB).
- Annual program audits are not generally required.
- Selected programs referred to as major programs.

How a Federal Program is Selected for Audit

2 CFR 200.518/.519 requires the auditor to:

- Identify the Federal programs with larger expenditures (Type A programs).
- Identify Type A programs that are low-risk.
- Identify Type B programs that are high-risk.

How a Federal Program is Selected for Audit

2 CFR 200.518/.519 requires the auditor to:

- Select for audit:
 - All Type A programs not identified as low-risk.
 - All Type B programs identified as high-risk.
 - Additional programs as necessary to address required entity risk coverage.

Type A/B Threshold – Table 2 CFR 200.518(b)(1)

Type A Threshold	Total Federal Awards Expended (FAE)
\$750,000	Equal to \$750,000 but \leq \$25 million
Total FAE times .03	Exceed \$25 million but \leq \$100 million
\$3,000,000	Exceeds \$100 million but \leq \$1 billion

- Title I, Special Education Cluster, and Child Nutrition Cluster are usually Type A programs.
- Two districts have no Type A programs in 2015-16.

Major Program Determination

2 CFR 200.518 (c)

High-Risk Type A Programs:

1. Not audited as major program in 1 of 2 most recent audit periods.
2. In the most recent audit period had a **high-risk** audit finding:
 - Modified Opinion.
 - Material Weakness.
 - Questioned Costs > 5 percent of expenditures.

Major Program Determination

2 CFR 200.518 (d)

Auditors use cumulative knowledge and professional judgment of factors below to determine if Type B program is considered low-risk or high-risk:

Current and prior
audit experience

Oversight exercised
by Federal agencies
and pass-through
entities

Inherent risk of
program

Entity Risk

An entity that meets the following conditions for each of the **preceding 2 audit periods** qualifies as a low-risk auditee and is eligible for reduced audit coverage (20 percent of total Federal expenditures):

- Annual single audits were performed.
- Unmodified opinions on the financial statements and the in relation to opinion on the schedule of expenditures of federal awards were issued.
- No deficiencies in internal control which were identified as material weaknesses.
- No substantial doubt about the entity's ability to continue as a going concern.

Entity Risk

None of the Federal programs had audit findings from any of the following in either of the preceding 2 audit periods in which they were classified as Type A programs:

1. Internal control deficiencies that were identified as material weaknesses in the auditor's report.
2. A modified opinion.
3. Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the audit period.

If the auditee does not qualify as low-risk, 40 percent of Federal expenditures must be audited.

What Do Auditors Look For In The Audit?

In general, the auditor looks for:

- Evidence that the entity complied with the direct and material compliance requirements of the grant.
- Internal controls that support compliance with the requirements.

What Do Auditors Look For In The Audit?

Guidance in determining the direct and material compliance requirements of a Federal program are found in the:

- Grant Documents.
- OMB Compliance Supplement.
- Federal regulations.
- Grantor published guidance, such as Frequently Asked Questions.

Grant Documents

We review grant documents such as the project application, project award notification, and amendments for requirements unique to the grant awarded, including the:

- Allowable activities.
- Allowed costs.
- Cash Management procedures.
- Period of performance.
- Required reports.
- Special tests and provisions.

OMB Compliance Supplement

- The OMB Compliance Supplement (Supplement) serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the Single Audit Act.
- For the programs contained in the Supplement, the Supplement provides information for auditors on the Federal program's objectives, procedures, and compliance requirements relevant to the audit.

OMB Compliance Supplement – ESEA Programs

Parts of the Supplement to consider for audits of ESEA programs:

Part 2: Compliance Matrix.

Part 3: Compliance Requirements, in general.

Part 4: Compliance Requirements, specific to the ESEA programs.

- 84.000 – Department of Education Cross-Cutting Section.
- 84.xxx – Program specific section (i.e., 84.010, Title I).

OMB Compliance Supplement – ESEA Programs

Part 6: Internal Control.

Appendix V: List of changes for the 2016 Supplement.

Website

https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2016

2014-15 ESEA Program Audits

Program	Number of Audits
Title I	19
Special Education Cluster (IDEA)	18
Improving Teacher Quality (Title II)	10
Teacher Incentive Fund	6
21 st Century Community Learning Centers	5
Migrant Education	5
School Improvement Grants	2
Charter School Program	1

2014-15 FY Federal Findings

Total Findings: 23

Material Noncompliance/Material Weakness (MN/MW): 8

Noncompliance/Significant Deficiency (N/SD): 11

Noncompliance (N): 4

Examples:

MN/MW: Title I Allocations and Maintenance of Effort

N/SD – Insurance Contributions and Access to Federal Funds for New or Significantly Expanding Charter Schools

N – Graduation Cohort

2014-15 ESEA Program Findings – Title I

Title I schoolwide program resources were not properly allocated to schools.

- After the District has set-aside funds for required and optional set-asides, the remaining grant funds must be allocated on a per-pupil basis to areas or schools in rank order based on concentration of poverty.
- We determined that the funds were not properly allocated and that the District had not established procedures to properly allocate amounts to the schools in rank order.
- Documentation supporting the calculation of allocations to schools and the set-asides is essential.

2014-15 ESEA Program Findings – Special Education Cluster

Maintenance of Effort.

- The amount of State and local funds or the combined State and local funds expended by the District on special education related services during any fiscal year be at least the same, either in total or per capita, as the amount spent in the most recent fiscal year.
- After consideration of allowances, the effort was not maintained either in total or per capita.
- Effort should be monitored to ensure compliance.

2014-15 ESEA Program Findings – Multiple Programs

Insurance Contributions - Criteria:

- Federal regulations provide that employers' contributions to a reserve for a workers' compensation self-insurance program must be based on sound actuarial principles and that actual claims paid to or on behalf of employees are allowable provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.
- The District must establish procedures to ensure that District contributions for premiums for Federally-funded employee positions were always necessary and reasonable.

2014-15 ESEA Program Findings – Multiple Programs

Insurance Contributions – Findings:

- Finding No. 1: While District personnel charged the Federal programs for insurance costs, District personnel did not charge the General Fund for its share of the contributions to the workers' compensation self-insurance program. Questioned costs: \$238,041.
- Finding No. 2: The District had not established procedures to ensure that District contributions for employee health insurance, including contributions for employees in positions funded by Federal awards, agreed with Board-authorized amounts. Questioned Costs: \$82,219.

2014-15 ESEA Program Findings – Multiple Programs

Insurance Contributions – Findings:

Finding No. 3: The District's contributions to the self-insured short-term disability and hospital indemnity programs totaled \$351,895. However, the District's actual cost of participating in those insurance programs, at \$54 per employee, was \$7,074. Questioned costs: \$344,821.

2014-15 ESEA Program Findings – Title I

Access to Funds for New or Significantly Expanded Charter Schools.

- If the charter school opens or expands its enrollment on or before November 1, the funds must be allocated within 5 months. After November 1, but before February 1, funds must be allocated before the subsequent year's funds are allocated.
- Although the District was properly notified that charter schools were significantly expanding, access to additional funds was not provided to the charter schools.

2014-15 ESEA Program Findings – Title I

Graduation Cohort

- The District is required to maintain appropriate documentation to support the removal of a student's count from the 4-year cohort used to calculate the high school graduation rate.
- Students may be removed from the cohort if: (1) they transferred from the District; (2) emigrated to another country; or (3) died.
- Official written documentation (e.g., requests for transcripts from another school; death certificate/obituary, etc.) supporting the removal of the student from the cohort was not maintained.

Corrective Action Plan – New for 2015-16 Audit Findings

To address each finding included in the audit report, the auditee must prepare a corrective action plan (CAP) separate from the audit finding which includes the following:

- The name(s) of the contact person(s) responsible for the corrective action.
- The corrective action planned.
- The anticipated completion date.
- If District disagrees with finding, an explanation and specific reasons for disagreement.

Uniform Guidance and Program Audits

For the 2015-16 and future audits, auditors will be looking for compliance with the new Uniform Guidance requirements, including:

- Written procedures for cash management and for determining the allowability of costs (2 CFR 200.302(b)(7)).
- Written standards of conduct covering conflicts of interest and governing action of its employees in the selection, award, and administration of contracts (2 CFR 200.318(c)(1)).
- Written procedures for procurement transactions (2 CFR 200.319(c)).

Uniform Guidance and Program Audits

If the entity provides Federal funds to subrecipients, Uniform Guidance requires the auditor to verify that:

- Whether the entity documented its evaluation of subrecipient's risk of noncompliance and considered such factors as the subrecipient's prior experience with the grant; results of previous audits of grant, whether the subrecipient has new personnel, etc.
- Whether the entity monitored the activities of the subrecipient for compliance.
- All requirements are found in 2 CFR 200.331.

Uniform Guidance and Program Audits

- o **Subrecipient** – a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program.
- o **Contractor** – an entity that receives a contract as defined in § 200.22 of the Uniform Guidance (terminology of vendor no longer used).

Not clearly defined in all cases. Each entity must make that determination in accordance with the Uniform Guidance, § 200.330.

Uniform Guidance and Program Audits

Uniform Guidance requires that entities establish and maintain effective internal controls over Federal programs, including (2 CFR 200.303):

- Following guidance for internal control issued by the Comptroller General of the United States or the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Evaluating and monitoring compliance with statutes, etc.
- Taking prompt action when noncompliance is identified.
- Safeguarding to protect personally identifiable information.

Uniform Guidance and Program Audits

Uniform Guidance requires internal control which provides reasonable assurance that the salary charges are accurate, allowable, and properly allocated (2 CFR 200.430(i)).

- Based on records that accurately reflect the work performed.
- If the grantor establishes a method for documenting time and effort, the grantor's method must be followed.
- When interim charges are based on budgeted amounts, internal controls must exist to ensure adjustments are made so final amounts charged to Federal awards are proper.

Every Student Succeeds Act (ESSA)

ESSA, to be implemented in 2017-18, will be the next big change for the ESEA programs.

It eliminates 50 individual Federal programs and replaces them with a new block grant to provide a well-rounded education.

From an audit perspective, it's too early to know which of the new requirements the OMB will require auditors to include in a compliance audit.

Be informed and be pro-active in making required changes.

Q & A?



ACRONYMS/SHORT NAMES

ESEA – Elementary and Secondary Education Act.

Major Program – A Federal program selected for testing of compliance and controls as part of the Single Audit.

OMB – Office of Management and Budget.

Supplement – OMB Compliance Supplement (2 CFR 200, Appendix XI).

Title I – Title I Grants to Local Educational Agencies program.

UG – Uniform Guidance (2 CFR 200).

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