AUDIT READINESS

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Why It’s Important

• Helps You carry out your responsibilities
• Assures that funds will be used for intended purposes
• Identifies potential issues BEFORE they are disclosed by an audit
• Gets rid of Audit Phobia
• Can be used as a training tool
• Provides means for process improvement
The Fundamentals

• Day-to-day, adhering to program objectives, laws, regulations, and guidance

• Doing the specific things the funded program should be doing per OMB Circular A-133, the program regulations, and the terms of the grant award (including the grant application)

The Fundamentals (continued)

• Proper execution of responsibilities
• Proper accounting for federal/state funds
• Only use funds for intended purposes
• Adequately document program activities and use of funds
• Perform internal audits
Maintaining Adequate Records

- Recipients responsible for proper recordkeeping
- Recipients responsible for proper retention
- Recordkeeping should be sufficient to establish an audit trail
- When in doubt, keep it!

ED’s Concerns

- Large amounts of unobligated funds
- Excessive / Infrequent requests
- Project goals not met - ED monitors
Budget Items

Must be:

• **Allowable** - permitted or not specifically prohibited

• **Allocable** - necessary for project’s success

• **Reasonable** - costs incurred by a “prudent” person

Common Audit Exceptions

• Poor recordkeeping / management

• Unallowable costs / activities

• Failure to follow standards

• Lack of internal controls

• Failure to obtain prior approval

• Incorrect / no indirect cost rate
Budget Management

• Project ledger
• Current information for each category
• Reconcile ledger w/ business office
• How often?
• By whom?

Personnel:
Internal Controls

• **Time & Attendance Certification**
• Maintained for grant’s staff
• Reflects total activity
• Signed by staff & supervisor
• Prepared monthly (w/i pay period)
• Cost sharing/matching salaries/wages supported
Budget Items: Travel

- Justify purpose
- Identify travelers
- Destination / travel dates
- Number & cost of trips

Equipment & Supplies

- Definitions consistent with institution’s policy
- Provide per unit cost
- Maintain control
- Lease or buy?
Contracts

- Written procurement procedures
- Cost and price analysis
- Procurement records
- Contracts administration

Common Problems/Pitfalls

- Payroll distribution system (time and attendance records inadequate)
- Supplanting/maintenance of effort (using grant funds when institutional funds should have been used)
- Services delivered to those other than the intended recipients
Common Problems/Pitfalls
(Continued)

• No written policies and procedures
• Lack of controls over computer systems and computer equipment
• Inadequate financial management systems (do not clearly show how grant funds used or how the use of funds ties to the budget)

Common Problems/Pitfalls
(Continued)

• Failure to maintain supporting documentation
• Use of funds for unallowable purposes
• Charging obligations from prior year to current funding period
How the Office of the Inspector General (OIG) uses Audits

- Gives the agency assurance regarding program compliance
- Gives the agency information about financial position and administrative capability
- Reported findings are acted upon-Audit Resolution
- OIG audits build upon non-federal audits

Audit Resolution

- Performed by the appropriate Assistant Secretary level official
- Who issues a Program Determination Letter (PDL)
- With advice form the Office of General Counsel (OGO)
- Actions
  - Return funds
  - Directed procedure change
  - Others
Audit Resolution
(Continued)

• Appeal within the agency to Office of Hearings and Appeals
• May be appealed to Federal Court

What does an OIG Audit Cover

• OMB Circular A-133, paragraph .215(a): authority of IG’s to perform audits is not limited. However, we need to build upon audit work that’s already been done. So, we start by reviewing any other audits (A-133, internal systems)
• Focus on compliance with the law, regulations, guidance, OMB Circulars, and grantee policies and procedures
• Report to agency whether grant funds used for intended purposes and use of funds supported (documents)