

Call Goals

- Discussion among CAA leaders
- Opportunity to talk through questions & challenges with experienced auditors

Call Topics

- Context for A-133 audits
- A-133 reporting requirements
- Management's response to findings
- Funder response to findings
- When good minds disagree – auditor and auditee communication strategies

Context:

Purpose of Independent Audit

Obtain auditor's opinion about whether the entity's financial statements fairly present the financial position and results of activities in accord with standards of US GAAP

Context:
Independent Audit Basics

- Board **engages CPA** to conduct independent audit
- Management responsible for **preparing accurate financial statements**
- Auditor responsible for **opinion** on extent to which readers can rely on the statements

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Context:
GAAS

- Generally Accepted Audit Standards
- Developed by **AICPA**
- Published in **Statements on Auditing Standards (SAS)**
- Significant changes since 2006

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Context:
A-133 Audits

- Required when combined federal expenditures of **\$500,000 or more** within the organization's fiscal year
- Described in Office of Management & Budget **Circular A-133 & Compliance Supplements**
- **Include** all standard independent audit procedures and reports
- Require **additional testing** and **reporting** on compliance with federal funds requirements

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Context:

A-133 Requires Use of GAGAS

- Generally Accepted Government Auditing Standards <http://www.gao.gov/govaud/ybk01.htm>
- Developed by GAO
- Include requirements for auditor qualifications
- Includes testing and reporting beyond that required by GAAS

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Context:

A-133 Requires Auditors to:

- Identify major federal programs
- Understand compliance requirements for major federal programs
- Identify risks of non-compliance
- Tailor audit procedures & tests to address the level of risk
- Test controls to determine compliance

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Context:

A-133 Audit Report Must Include

- Standard audit opinion letter
- Auditor's opinion on compliance with requirements of major federal programs
- Description of findings on controls, compliance and questioned costs

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Context:

Management Responsibilities

- Develop & maintain effective **controls**
- Identify & meet **compliance requirements**
- **Prepare** comprehensive **financial statements** & **Schedule of Expenditures of Federal Awards (SEFA)**

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Context:

More Management Responsibilities

- **Select** a qualified firm to conduct the A-133 audit
- Address **prior audit findings**
- Respond to **current audit findings**
- Ensure **timely submission** of audit report

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Both GAAS and A-133 require the Auditor to understand, evaluate, and test Internal Controls

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Internal Control Standards

- Both A-133 and standard audits rely on COSO
- COSO – Committee of Sponsoring Organizations created framework for establishing and evaluating internal controls
- www.coso.org/IC

Auditors Required to:

- Understand control environment
- Perform rigorous analysis of risks and design audit procedures to test for significant risks
- Must test of controls even when design of controls is deemed inadequate

Key ??? For Auditors

- Are the controls as designed adequate to address risks?
- Are controls working as designed?
- How likely is it that the controls have failed?
 - To deter and or detect error or improper action
 - To result in correction of error
- How significant would the consequences be if the controls failed?

Auditor Conclusions

- Consider **adequacy** of **control design**
- Analyze results of testing to determine **effectiveness of controls**
- Determine the **significance** of control problems
- **Communicate control conclusions**

3 Auditor Reports

- Report on Financial Statement and Supplementary Information ...(**opinion letter**)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards ...(**Yellow Book report**)
- Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Significant Deficiencies

- Exists when **design** or **operation** of a **control** does not allow management or staff to **prevent** or **detect misstatements** on a timely basis

Significant Deficiencies

- Inability to prepare F/S
- Inadequate segregation of duties
- No Safeguarding of assets
- Receives significant accounting services
- Lack of timely reconciliations
- Lack of expertise in accounting principles
- Employee fraud
- Qualification & training of staff
- No monitoring of controls

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Material Weaknesses

- A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected

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Material Weaknesses

- Significant audit adjustments
- Not correcting internal control deficiencies
- Fraud by management
- Regulatory non-compliance
- Bias in accounting estimates
- Restatement of financial statements
- Deficiencies in IT controls
- Ineffective oversight of financial reporting

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Common A-133 Findings

- Improper allocation of costs to federal awards
- Inadequate time and effort documentation
- Inadequate Sub-recipient monitoring
- Procurement problems
- Failure to meet Cash Management requirements

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More A-133 Findings

- Inadequate capacity to prepare complete financial statements
- Inadequate separation of duties

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Management's Response?



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Management Response Strategies

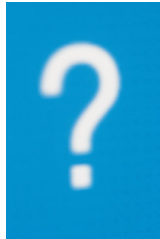
- Realistic in relation to magnitude & resources
- Clear assignment of responsibility
- Timeline for implementation
- Transition plan
- Monitoring plan

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Funders' Response to Findings



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Funder Responses

- Offer technical assistance
- Schedule additional monitoring
- Schedule additional monitoring
- Place in high risk classification
- Limit access to funding advances
- Disqualify for future funding
- Attempt to terminate current agreement

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When Good Minds Disagree



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Next Steps

- Review prior findings and responses
- Identify risks for findings & questioned costs
- Prepare Board, funders, & staff for anticipated findings
- Communicate response plans

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