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Ohio Department of
HEALTH



Compliance & Accountability Unit Top Ten Audit Findings Training

Top Ten Audit Findings

Welcome to the Compliance and Accountability Unit (CAU) training session for our external partners. The purpose of this training is to provide assistance in correcting and preventing the most repetitive audit findings.

ODH Responsibilities as a Pass-Through Entity

- Utilize sound management practices
- Administer Federal funds in a manner consistent with:
 - Underlying agreements
 - Program objectives
 - Terms and conditions of the Federal Award
- Assure proper and efficient administration of Federal and **State** awards “Best Practices”

Program Responsibilities

- Preparation and posting of the Request for Proposal
- Provide assistance for the programmatic, scientific and/or technical aspects of assigned projects
- Contact person for all matters involving a particular project to a subgrantee
- Monitor project/program performance
 - review of progress reports
 - conducting site visits
 - ensure that only allowable expenditures are funded
 - ensure that all terms and conditions of an award are met
 - goals & objectives provide for measurable outcomes

Grants Administration Unit (GAU) Responsibilities

- Responsible for assuring fiscal accountability for all federal and state grant projects
- Monitor and enforce compliance with all federal/state reporting and spending requirements
- Conducts regular desk reviews and periodic field reviews of all subgrantees
- Monitors all expenditures at least quarterly
- Ensure that a grant is closed out at the end of the grant period and that unspent and unobligated monies and equipment are returned to ODH
- Assist the Office of Financial Affairs, Federal Reporting Unit in finalizing communications with the federal funding source

Subgrantee Responsibilities

- Responsible and required to comply with the timelines and conditions of the Request for Proposal (RFP) which includes the submission of:
 - complete application
 - expenditure reports
 - program narratives
 - budget revision requests
 - programmatic reports
 - inventory reports

Subgrantee Responsibilities

- Required to maintain effective internal control
- Comply with all applicable laws and regulations provided to them in the Request for Proposal, GAPP manual and state and Federal guidelines.
- Required to maintain current, accurate and complete records of its project revenues, expenditures, obligations and equipment

Compliance and Accountability Unit (CAU) Responsibilities

The Compliance and Accountability Unit (CAU), formerly known as the Internal Audit Unit, assists the subgrantee agencies by providing:

- Desk Reviews
- On-site audits/reviews
- Independent Audit Reports Reviews
- Training & Technical Assistance

ODH Team Consist of

- Grants Administration Unit
- All Program Areas
- Compliance and Accountability Unit
- Executive Staff (Senior Management)

PURPOSE... of OMB Circulars

Establish principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments.

OMB Circulars

<u>Cost Principles</u>	<u>(Description of costs, allowable, unallowable, etc.)</u>
A-21	Educational Institutions
A-122	Non-Profit Organizations
A-87	State & Local Units of Government

Let's Get Started

- OMB Circular A-87 – Cost Principles for State, Local and Indian Tribal Governments (5/10/04) - Relocated to 2 Code of Federal Regulations (CFR)

Appendix A ... (A-87)

Contains General Principles for
Determining Allowable Costs

SCOPE

Designed to provide that Federal awards bear their **fair share** of cost recognized under the cost principles except where restricted or prohibited by law.

Allowable Costs

(C. Basic Guidelines)

- Necessary and reasonable for performance of the award
- Allocable to the award (benefits the award)
- Authorized or not prohibited under State or local laws or regulations
- Conform to any limitations or exclusions set forth in the cost principles, Federal laws, terms and conditions of the award, or other governing regulations

Allowable Costs(cont.)

- Consistent with policies, regulations and procedures
- Be accorded consistent treatment
- Be determined in accordance with GAAP (Generally Accepted Accounting Principles)
- Not included as a cost or used to meet cost sharing/match of another federal/state award, except as specifically provided by law
- Be net of applicable credits
- Be adequately documented
- Be reasonable

ALLOCABLE COSTS

- Chargeable or assignable in accordance with benefits received
- May not be charged to other Federal/state awards to overcome fund deficiencies

Classification of Costs

- Direct Costs generally include:
 - Salaries and wages (including holidays, sick leave, etc) – Direct Labor Costs
 - Other employee fringe benefits allocable to direct labor employees
 - Consultant services contracted to accomplish specific project objectives
 - Travel Expenses of direct labor employees
 - Materials/supplies purchased directly for use on a specific project

Top Ten Audit Findings

- Board of Directors
- Independent Audits
- Unallowable Costs
- Reporting Requirements
- Conflict of Interest

Top Ten Audit Findings

- Internal Controls
- Budget
- Payroll
- Contracts
- Cost Allocation

Board of Directors Finding

- a. Lack of involvement with agency fiscal/internal control issues;
- b. Lack of properly maintained minutes and other support for establishing, maintaining and enforcing agency policies;
- c. Lack of written up-to-date policies and procedures for the agency

Independent Audits Finding

- a. Failure to timely submit the required audit package;
- b. Failure to contract with competent independent auditor;
- c. Failure to properly identify ODH pass-through grants;
- d. Improper charging of non-Single Audit (A-133) costs to ODH grants.

Audit Requirements

- A-133 Government, Education and Non-Profit
- Thresholds (expended)
- \$500K or more – Single Audit
- Under \$500K – Financial Audit
- Audit Report due 30 days after audit
- Audit must be completed and submitted within 9 months after end of FY

Resolution of Audit Reports (CAU)

- Establish working file for the audit report
- Review and analyze the audit report
- If there are findings, a letter must be generated to the audited sub-recipient. This letter should include a request for a Corrective Action Plan.

Resolution of Audit Reports

The Corrective Action Plan should include:

- Description of each finding
- Specific steps to be taken to implement the recommendation
- Timetable for performance of each corrective action
- Description of monitoring to be performed to ensure implementation of the Corrective Action Plan

Unallowable Costs Finding

- a. Alcoholic beverages/employee meals;
- b. Travel and meals over the current state rates;
- c. Miscellaneous, administrative or indirect costs (excluding up-to-date allocation plans);
- d. Contracts, for compensation, with advisory board member (or any agency employee)

Reporting Requirements Finding

- a. Expenditure Reports – failure to support with sufficient original documentation and subgrantee’s accounting records;
- b. Expenditure Reports – to report actual expenditures (as opposed to budget information);
- c. Failure to document, obtain prior approval for and liquidate outstanding obligations at the end of the grant period;

Reporting Requirements (cont.)

d. Inventory – failure to properly tag and report equipment purchased with grant funds; failure to maintain a current and complete inventory listing.

Conflict of Interest Finding

a. Subgrantee official or employee participates personally in activities of the grant in which that individual holds a personal financial interest.

Internal Controls Finding

- a. Lack of segregation of duties;
- b. Lack of proper authorization for payments of goods and services;
- c. Inadequate documentation for expenditures and vouchers;
- d. Failure to maintain an accounting system that includes separate ledger accounts for each program that receives funding

Budgeting Finding

- a. Expending grant funds which were neither budgeted nor approved.

Payroll Finding

- a. Failure to support payroll costs with sufficient Time and Activity documentation (for employees who work less than 100% on the grant);
- b. Failure to properly represent alternative source of funding for employees (for employees that work less than 100% on the grant)

TIME AND EFFORT

- Applies to all Federal programs
- Needed for employees working on federal cost objectives for allowable costs
- Must describe what Federal program “cost objective” the employee works on
- The “cost objectives” must be connected to the employee’s salary source

TIME AND EFFORT

- Terminology:
 - Time and attendance records
 - Payroll records
 - Worked 8:00 – 4:00
 - Time and effort records
 - Time distribution records
 - Worked 50% on Title I administration and 50% on nonfederal

TIME AND EFFORT

Two Kinds of Reporting

- **Semi-annual certification**
 - Use when one cost activity/objective (100%)
 - Conform to pay periods
 - Complete at least twice a year
 - After-the-fact (evidenced by dating)
 - Signed by employee or immediate supervisor (could be both)

TIME AND EFFORT

- If employee works on **multiple** cost objectives:
 - Personnel Activity Reports
 - Signed every month (minimum) by employee

TIME AND EFFORT

- Personnel Activity Reports must:
 - Be an after-the-fact record
 - Represent the total activity for which the employee was compensated
 - Be completed **at least** monthly, and must coincide with one or more pay periods
 - Be signed and dated by employee

TIME AND EFFORT

- Documentation to verify underlying basis of report:
 - Actual effort, never estimated
 - Consult supporting documentation when executing monthly report
 - Calendar, work product, time log

TIME AND EFFORT

- **Budget Estimates:**
 - These are determined prior to services being performed and do not qualify as Personnel Activity Reports
 - May be used for interim accounting purposes
 - Must be based on reasonable approximations of activity actually performed

Contracts Findings

Failure to include all required contract elements (GAPP section 101.4)

Each contract must contain:

1. Names and signatures of both parties,
2. Address, social security number, and/or tax identification,
3. The effective dates of the agreement,
4. Activities and services to be performed,

Contracts (cont'd)

5. The maximum amount of remuneration/compensation to be paid by the contracting agency under the agreement, including hourly rate and other expenses for the consultants and,
6. Administrative remedy, i.e., release clause/cancellation and appropriate remedial actions when contractors violate or breach contract terms, including the manner of termination, number of days within which parties must provide written notice of such cancellation and basis for settlement.

Cost Allocation

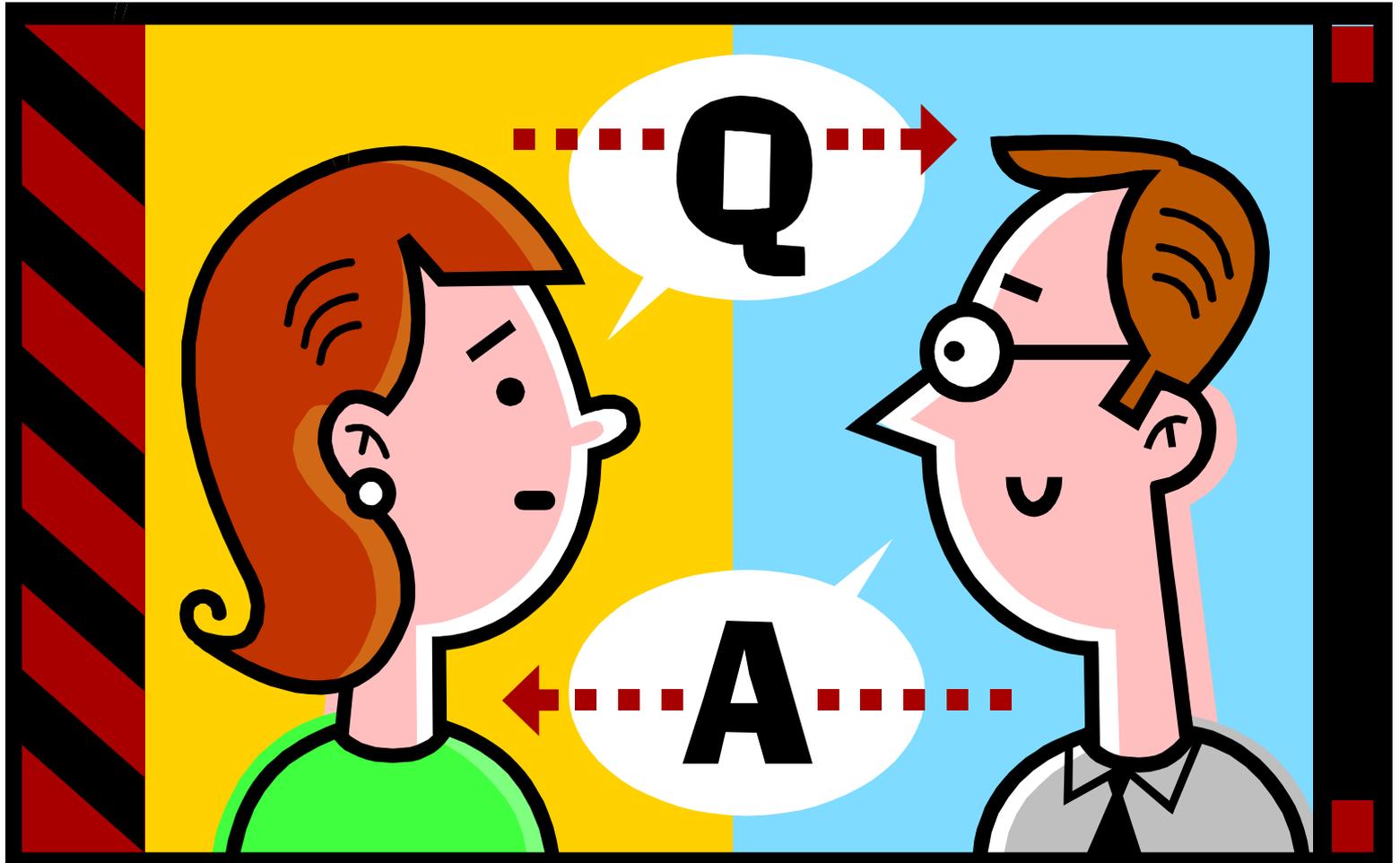
Failure to maintain a current Cost Allocation Plan for shared expenses (multiple funding sources) GAPP section 103.3

In Closing...

We thank all of you for your participation in this training session. Your questions and comments (during the session and in follow-up) are much appreciated.

We review your input and use it to continually review and improve our presentations.

Questions **and** Answers



REFERENCE

Web-links:

OMB Circular A-87 (in the Federal Register)

http://www.whitehouse.gov/omb/assets/omb/fedreg/2005/083105_a87.pdf

ODH GAPP Manual

<http://www.odh.ohio.gov/pdf/GAPManual/GAPMANUAL.PDF>

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