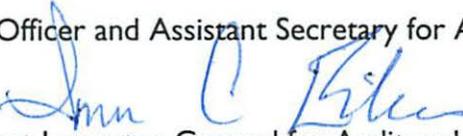




August 23, 2012

**MEMORANDUM FOR:** Scott B. Quehl  
Chief Financial Officer and Assistant Secretary for Administration

**FROM:** Ann C. Eilers   
Principal Assistant Inspector General for Audit and Evaluation

**SUBJECT:** Nonfederal Audit Results for the 6-Month Period Ending  
June 30, 2012

This memorandum provides an analysis of nonfederal audit reports, including a summary of findings, that OIG reviewed during the 6-month period ending June 30, 2012, for entities receiving federal awards that are subject to audit requirements. Section 1 discusses audit reports submitted for states, local governments, tribes, colleges and universities, and nonprofit organizations. Section 2 discusses reports submitted for commercial organizations.

### **Section 1: Analysis of Audits Submitted for States, Local Governments, Tribes, Colleges and Universities, and Nonprofit Organizations**

Nonfederal entities (states, local governments, tribes, colleges and universities, and nonprofit organizations) that expend \$500,000 or more in federal awards in a year are required by the Single Audit Act of 1984, and Amendments of 1996, to have an annual audit of their federal awards in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The purpose of the Single Audit Act is to set forth standards for obtaining consistency and uniformity among federal agencies with the audit of nonfederal entities expending federal awards. The single audit includes a review of the entities' financial statements and Schedule of Expenditures of Federal Awards. The auditor determines whether the statements are presented fairly; tests internal controls; and determines compliance with laws, regulations, and the provisions of the contracts or grant agreements that may have a direct and material effect on each of the major programs.

All auditees electronically submit to the Federal Audit Clearinghouse a data collection form (a summary of audit results), as well as a copy of the reporting package, consisting of

- financial statements,
- a schedule of expenditures of federal awards,
- a summary schedule of prior audit findings,
- auditor's reports of compliance and opinion on the financial statements, and
- a corrective action plan.

Federal awarding bureau responsibilities in connection with the Single Audit Act include

- advising recipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements;
- ensuring audit completion and report receipt;
- providing technical advice to auditees and auditors; and
- issuing a management decision on audit findings within 6 months after receipt of the audit report—and ensuring that the recipient takes appropriate and timely corrective action. See OMB Circular A-133, subpart D, section 400 (c).

OIG is responsible for reviewing the submitted audit report and auditee responses and determining whether the recommendations can be implemented. In instances with nonresolution findings, we notify the responsible bureau of the finding(s) and emphasize the importance of resolution of the findings(s) before the next audit; however, a formal response in accordance with DAO 213-5, “Audit Resolutions and Follow-Up,” is not required. In instances with material findings, DAO 213-5 requires a formal response. OIG notifies the auditee, and the responsible bureau of the finding(s). We work with the bureaus to ensure they prepare written determinations, specifying concurrence or nonconcurrence with each recommendation. The written determination presents a specific plan of corrective action, with appropriate target dates for implementing all accepted recommendations. We conduct this review on an ongoing basis, and we intend to present summary analyses semiannually.

We reviewed each report for compliance with the reporting requirements of OMB Circular A-133 (but not the quality of the underlying audits) and analyzed the results. Table I summarizes our observations.

<b>Bureau</b>	<b>Reports Reviewed</b>	<b>Reports with Findings</b>	<b>Percentage of Reports with Findings</b>	<b>Material Findings<sup>a</sup></b>	<b>Nonresolution Findings<sup>b</sup></b>	<b>Total Findings</b>	<b>Questioned Costs<sup>c</sup></b>
EDA <sup>d</sup>	71	54	76	16	82	98	\$470,087
NOAA	22	5	23	7	8	15	304,151
NTIA	10	5	50	0	24	24	9,549
NIST	11	2	18	0	4	4	0
Multiple	60	11	18	0	0	0	0
ITA	2	0	0	0	0	0	0
<b>TOTAL</b>	<b>176</b>	<b>77</b>	<b>44</b>	<b>23</b>	<b>118</b>	<b>141</b>	<b>\$783,787</b>

<sup>a</sup> Material findings are those with questioned costs greater than or equal to \$10,000 and/or significant nonfinancial findings.  
<sup>b</sup> Nonresolution findings are those with questioned costs less than \$10,000 or administrative findings.  
<sup>c</sup> Questioned costs are subject to change through the audit resolution/appeal process.  
<sup>d</sup> EDA also had \$213,758 in funds to be put to better use.

As shown in table I, there were

- 44 percent of all reports reviewed that contained at least one finding;
- 16 and 7 material findings for EDA and NOAA, respectively;

- between 4 and 82 nonresolution findings (less significant or procedural findings whose resolution is not monitored by OIG), at each of four Commerce bureaus; and
- approximately \$784,000 of questioned costs identified for all Commerce programs.

Table 2 provides a summary analysis of reports reviewed, including the number of reports with findings (both material and nonresolution), with emphasis on the number of material findings by Commerce program.

Bureau	Program	CFDA	Number of Awards Included on Reports Reviewed <sup>a</sup>	Number of Awards with Findings <sup>a</sup>	Percentage of Awards with Findings <sup>a</sup>	Material Findings
EDA	Economic Development Support for Planning Organizations	11.302	36	6	17	1
EDA	Economic Adjustment Assistance—Revolving Loan Fund (RLF) Program	11.307	104	46	44	15
NOAA	Sea Grant Support	11.417	42	1	2	1
NOAA	Pacific Salmon Treaty Program	11.438	20	1	5	2
NOAA	Habitat Conservation	11.463	44	4	9	4

<sup>a</sup> A report may have more than one award per CFDA program listed on the Schedule of Expenditures of Federal Awards (SEFA). Table 2 includes each CFDA award line on the report SEFA. Therefore, values listed for table 2 may be higher than those for table 1.

As shown in table 2, the Commerce bureau programs with the most material findings were EDA RLF, with 15, and NOAA Habitat Conservation, with 4. The program with the highest percentage of reports with material and/or nonresolution findings was EDA RLF, with 44 percent.

The most common finding types across all Commerce programs included noncompliance with (1) reporting requirements (either deficient or late reports), (2) cost principles pertaining to allowable costs, (3) cash management, (4) internal control policies concerning segregation of duties, and (5) CPA independence requirements for performing the single audit—the firm either played a large role in preparing the financial statements or assisted in the preparation of the Schedule of Expenditures of Federal Awards.

There were 24 findings related to “Special Tests and Provisions” associated with the EDA RLF Program. The findings included (1) noncompliance with RLF capital utilization rates (generally EDA requires recipients to have at least 75 percent of the RLF’s capital base loaned or committed at any given time), (2) bank turndown letters that could not be located (demonstrating that credit is not otherwise available), and (3) incorrect calculation of RLF expenditures on the Schedule of Expenditures of Federal Awards.

## **Section 2: Analysis of Audits Submitted for Commercial Organizations**

Commercial organizations that receive federal funds from the Department are subject to award requirements as stipulated in the award document.<sup>1</sup> The Department of Commerce Financial Assistance Standard Terms and Conditions (March 2008) provides guidance that unless otherwise specified in the terms and conditions of the award, an audit shall be performed when the federal share amount awarded is \$500,000 or more over the duration of the project period. Additionally, it provides that an audit is required at least once every 2 years depending on the length of the award and the terms and conditions of the award. Some Commerce programs have specific audit guidelines that are incorporated into the award. When Commerce does not have a program-specific audit guide available for the program, the auditor will follow the requirements for a program-specific audit as described in OMB Circular A-133, section .235.

Federal awarding bureau responsibilities in connection with for-profit audits, per the Department of Commerce *Grants Manual*, include

- providing grants administration and programmatic guidance and support to recipients and
- reviewing the audit report and the recipient's response and preparing the audit resolution proposal in accordance with DAO 213-5.

OIG responsibility for the review of for-profit audits is the same as for single audits (see section I). During the current review period, our analysis of audits submitted for commercial and other organizations included the NTIA Broadband Technology Opportunities Program (BTOP) awards, the NIST Advanced Technology Program (ATP) awards, and the NIST Technology Innovation Program (TIP) awards.

BTOP awards span 3 years, and audits are due after the first and third years. The BTOP grants were awarded in 2010, and all first-year audits have been submitted and reviewed. The year 3 audits are due beginning in calendar year 2013.

ATP and TIP awards range from 1 to 5 years, and audits are due after the first, third, and fifth years. The ATP program funded awards from 1990 through 2004 and then in 2007. The TIP program replaced the ATP program, funding awards from 2009 through 2011. The last group of audit report submissions is due in 2013 for ATP and in 2015 for TIP.

For commercial audits, a copy of the program-specific audit reporting package, prepared in accordance with program guidelines, is submitted to both the grants officer and the OIG (see table 3).

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<sup>1</sup> 15 CFR sections 14.26(c) and (d).

**Table 3.  
Audit Guidance, Threshold, and Requirements for Reporting Packages  
for Commercial Audit Submissions Reviewed**

<b>Bureau and program</b>	<b>NTIA BTOP</b>	<b>NIST ATP</b>	<b>NIST TIP</b>
CFDA number	11.557	11.612	11.616
Audit guidance	<i>Program-Specific Audit Guidelines for BTOP</i>	<i>Program-Specific Audit Guidelines for ATP Cooperative Agreements</i>	Government Auditing Standards and program-specific audit guidelines described in OMB Circular A-133 §.235
Audit threshold	>\$100,000	All awards	All awards
Required components of audit reporting package			
Schedule of funds' sources and project costs—by budget category	√	√	√
Independent auditor's report <sup>a</sup>	√	√	√
Report on the auditee's internal control over compliance and an opinion on compliance with direct and material requirements applicable to the program	√	√	√
Schedule of findings and questioned costs	√	√	√
Schedule of prior audit findings	√	√	√
Corrective action plan	√	√	√
Management assertions	NA <sup>b</sup>	√	NA <sup>b</sup>
Audited financial statements	If available— audit not required	NA <sup>b</sup>	NA <sup>b</sup>
<sup>a</sup> The independent auditor's report is the opinion (or disclaimer) as to whether the Schedule of Funds Sources and Project Costs award is presented fairly in all material respects in conformity with Generally Accepted Accounting Principles or another comprehensive basis of accounting. <sup>b</sup> Not applicable.			

We reviewed each report for compliance with the applicable reporting requirements (but not the quality of the underlying audits) and analyzed the results. Table 4 summarizes our observations.

**Table 4.  
Analysis by Bureau for OIG-Reviewed Commercial Audit Reports, January–June 2012<sup>a</sup>**

Bureau	Program	CFDA	Reports Reviewed	Reports with Findings	% Reports with Findings	Material Findings <sup>b</sup>	Non-resolution Findings <sup>c</sup>	Total Findings	Questioned Costs <sup>d</sup>
NTIA	BTOP	11.557	53	34	64	7	63	70	\$ 72,728
NIST	ATP <sup>e</sup>	11.612	23	8	35	5	16	21	130,973
NIST	TIP	11.616	38	25	66	4	117	121	222,327

<sup>a</sup>Each of these programs has recipients that could be subject to audit in accordance with OMB Circular A-133. If significant, results for those reviews appear in section I.

<sup>b</sup>Material findings are those with questioned costs greater than or equal to \$10,000 and/or significant nonfinancial findings.

<sup>c</sup>Nonresolution findings are those with questioned costs less than \$10,000 or administrative findings.

<sup>d</sup>Questioned costs are subject to change through the audit resolution/appeal process.

<sup>e</sup>ATP also had \$15,337 in funds to be put to better use.

The most common finding types across the BTOP program included noncompliance with (1) applicable policies or procedures (either not having or not following them), (2) cost principles for allowable costs, (3) reporting requirements (either deficient or late reports), (4) audit report requirements to prepare the Schedule of Expenditures of Federal Awards using the applicable budget for the period, and (5) equipment and real property management requirements. The most common finding types across the ATP program included noncompliance with award requirements for (1) allowable activities, (2) allowable costs, (3) procurement, (4) matching cost share, and (5) subrecipient monitoring.

The most common finding types across the TIP program included noncompliance with award requirements for (1) allowable activities, (2) allowable costs, and (3) cash management.

Our nonfederal audit team, which will provide the bureaus a detailed summary of the findings, is ready to discuss these results in more detail as the Department proceeds with the resolution of findings. If you have any questions, please contact me at (202) 482-4661 or Andrew Katsaros at (202) 482-7859.

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