



February 11, 2013

**MEMORANDUM FOR:** Ellen Herbst  
Senior Advisor to the Deputy Secretary

**FROM:** Andrew Katsaros  
Assistant Inspector General for Audit

**SUBJECT:** Nonfederal Audit Results for the 6-Month Period Ending  
December 31, 2012

This memorandum provides an analysis of nonfederal audit reports, including a summary of findings, that OIG reviewed during the 6-month period ending December 31, 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 I: Analysis of Audits Submitted for States, Local Governments, Tribes, Colleges and Universities, and Nonprofit Organizations**

Nonfederal entities (i.e., 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 major program.

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

- identifying federal awards,
- 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.<sup>1</sup>

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 finding(s) before the next audit; however, a formal response in accordance with Department Administrative Order (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 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 (below) summarizes our observations:

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<sup>1</sup> See Office of Management and Budget (OMB) Circular A-133, subpart D, section 400 (c).

**Table I.  
Analysis by Bureau for OIG-Reviewed Single Audit Reports, July–December 2012**

Bureau	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings	Material Findings <sup>a</sup>	Nonresolution Findings <sup>b</sup>	Total Findings	Questioned Costs <sup>c</sup>
EDA	41	27	66	7	61	68	\$856,015
NOAA	24	11	46	2	19	21	31,685
NTIA	15	13	87	14	24	38	1,467,451
NIST	5	2	40	0	9	9	0
MBDA	1	1	100	0	2	2	0
Multiple	29	6	21	0	0	0	0
<b>TOTAL</b>	<b>115</b>	<b>60</b>	<b>52</b>	<b>23</b>	<b>115</b>	<b>138</b>	<b>\$2,355,151</b>

Source: OIG

<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.

As shown in table I, there were

- 52 percent of all reports reviewed that contained at least one finding,
- 14, 7, and 2 material findings for NTIA, EDA, and NOAA, respectively,
- between 2 and 61 nonresolution findings (less significant or procedural findings whose resolution OIG does not monitor), at each of five Department bureaus; and
- approximately \$2.4 million of questioned costs identified for all Commerce programs.

Table 2 (below) 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 Departmental program.

**Table 2.  
Findings in OIG-Reviewed Single Audit Reports, July–December 2012,  
by Departmental Program, Identified by Catalog of Federal Domestic  
Assistance (CFDA) Number**

<b>Bureau</b>	<b>Program</b>	<b>CFDA</b>	<b>Number of Awards Included on Reports Reviewed<sup>a</sup></b>	<b>Number of Awards with Findings<sup>a</sup></b>	<b>Percentage of Awards with Findings<sup>a</sup></b>	<b>Material Findings</b>
EDA	Investments for Public Works and Economic Development Facilities	11.300	18	10	56	5
EDA	Economic Adjustment Assistance—Revolving Loan Fund (RLF) Program	11.307	39	23	59	2
NOAA	Sea Grant Support	11.417	13	1	8	2
NTIA	Broadband Technology Opportunities Program (BTOP)	11.557	18	11	61	8
NTIA	State Broadband Data and Development Grant Program	11.558	7	2	29	6

Source: OIG

<sup>a</sup> An entity report may have more than one award per CFDA program listed on the SEFA. Table 2 counts each CFDA award line on the report SEFA. Table 2 counts may be larger than table 1 as a report may have multiple awards for the same CFDA number.

As shown in table 2, the bureau programs with the most material findings were NTIA BTOP, with 8, and NTIA State Broadband Data and Development Grant Program, with 6. The program with the highest percentage of reports with material and/or nonresolution findings was BTOP, with 61 percent.

The most common finding types across all Departmental programs included noncompliance with

- reporting requirements (either deficient or late reports),
- CPA firm played a large role in preparing the financial statements,
- internal control policies concerning segregation of duties,
- cost principles pertaining to allowable costs, and
- “Special Tests and Provisions” requirements.

Regarding the latter finding type: there were 9 findings related to “Special Tests and Provisions” associated with the EDA RLF Program’s 23 awards with findings, including

- noncompliance with RLF capital utilization rates,<sup>2</sup>
- bank turndown letters, demonstrating that credit is not otherwise available, that could not be located, and
- 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 not subject to Single Audit Act requirements. However, they are subject to audit requirements as stipulated in the award document.<sup>3</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 Departmental programs have specific audit guidelines that are incorporated into the award. When the Department 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 NIST Advanced Technology Program (ATP) awards and the NIST Technology Innovation Program (TIP) awards. While our responsibility included the NTIA BTOP awards, none were submitted.

ATP and TIP awards range from 1 to 5 years, with audits due after the first, third, and fifth years. ATP—which awarded funds from 1990 through 2004 and then in 2007—was replaced by TIP, which awarded funds from 2009 through 2011. The last group of audit report submissions is due in 2013 for ATP and in 2015 for TIP.

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<sup>2</sup> EDA generally requires recipients to have at least 75 percent of the RLF’s capital base loaned or committed at any given time.

<sup>3</sup> 15 C.F.R. §§ 14.26(c)–(d).

BTOP awards span 3 years, with audits due after the first and third years. NTIA awarded BTOP grants in 2010, and all first-year audits submitted have been reviewed. There were no BTOP audits processed for this period because the first-year audits were processed in prior periods and the third-year audits have not been submitted. Third-year audits are due starting in 2013.

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

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

Bureau and program	NTIA BTOP	NIST ATP	NIST TIP
CFDA number	11.557	11.612	11.616
Audit guidance	Program-specific audit guidelines for BTOP	Program-specific audit guidelines for ATP cooperative agreements	<i>Government Auditing Standards</i> and program-specific audit guidelines described in OMB Circular A-133 Section 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	N/A <sup>b</sup>	✓	N/A <sup>b</sup>
Audited financial statements	If available (audit not required)	N/A <sup>b</sup>	N/A <sup>b</sup>

Source: OIG, from program-specific audit guidelines for BTOP and ATP cooperative agreements, as well as *Government Auditing Standards* and program-specific audit guidelines described in OMB Circular A-133 Section 235

<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 general 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,**  
**July–December 2012<sup>a</sup>**

Bureau	Program	CFDA	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings	Material Findings <sup>b</sup>	Non-resolution Findings <sup>c</sup>	Total Findings	Questioned Costs <sup>d</sup>
NIST	ATP	11.612	18	10	56	27	4	31	\$1,609,040
NIST	TIP	11.616	9	4	44	3	4	7	46,633

Source: OIG

<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 amounts are for federal share and are subject to change through the audit resolution/appeal process.

The most frequent finding types across the ATP program included noncompliance with award requirements for allowable costs and cost principles, matching, level of effort, and reporting. The most common finding types across the TIP program included noncompliance with award requirements for allowable costs/cost principles and activities allowed or unallowed.

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) 482-7859 or Mark Zabarsky at (202) 482-3884.