



September 9, 2013

MEMORANDUM FOR: Ellen Herbst
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, 2013

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, 2013, for entities receiving federal awards 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 (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 audit required by the Single Audit Act includes a review of the entities' financial statements and Schedule of Expenditures of Federal Awards (SEFA). 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) and a copy of the reporting package, which consists 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.¹

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 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. OIG conducts this review on an ongoing basis and intends to present summary analyses semiannually.

OIG reviewed each report for compliance with the reporting requirements of OMB Circular A-133 (but did not review the quality of the underlying audits) and analyzed the results. Table 1 summarizes our observations.

¹See Office of Management and Budget (OMB) Circular A-133, § __.400 (c).

Table I.
Analysis by Bureau for OIG-Reviewed Single Audit Reports, January–June 2013

Bureau	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings	Material Findings ^a	Non-resolution Findings ^b	Cross-Cutting Findings ^c	Total Findings	Questioned Costs ^d
EDA ^e	39	32	82	16	58	11	85	\$143,903
NOAA	11	7	64	11	27	38	76	407,545
NTIA	12	7	58	15	22	14	51	916,537
NIST	6	5	83	2	6	21	29	72,506
ITA	1	1	100	0	0	2	2	0
Multiple ^f	37	31	84	0	7	11	18	0
Total	106	83	78	44	120	97	261	\$1,540,491

Source: OIG

^a *Material findings* are those with questioned costs greater than or equal to \$10,000 and/or significant nonfinancial findings.

^b *Nonresolution findings* are those with questioned costs less than \$10,000 or administrative findings.

^c *Cross-cutting findings* may affect more than one program—they are procedural or internal control findings that are disclosed on the noncognizant audit reports.

^d *Questioned costs* are subject to change during the audit resolution/appeal process.

^e EDA also had \$5,665,323 in funds to be put to better use, which is subject to change during the audit resolution/appeal process.

^f *Multiple* indicates that the single audit report included programs from more than one Departmental bureau.

As shown in table I,

- 78 percent of all reports reviewed contained at least one finding;
- EDA, NOAA, NTIA, and NIST administered grants whose grantees had material findings;
- Each of four Department bureaus had between 6 and 58 nonresolution findings (less significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor);
- Each of five Department bureaus had between 2 and 38 cross-cutting findings (less significant procedural or internal control findings, usually affecting more than one Departmental program, whose resolution OIG does not monitor);
- Approximately \$1.5 million of questioned costs were identified for all Departmental programs; and
- \$5.7 million of funds to be put to better use were identified for EDA.

Table 2 provides a summary analysis of reports reviewed, including the number of reports with findings (material, nonresolution, and cross-cutting), with an emphasis on the number of material findings by Departmental program.

Table 2.
Material Findings in OIG-Reviewed Single Audit Reports, January–June 2013,
by Departmental Program, Identified by Catalog of Federal Domestic
Assistance (CFDA) Number

Bureau	Program	CFDA	Number of Awards Included on Reports Reviewed ^a	Number of Awards with Findings ^a	Percentage of Awards with Findings ^a	Material Findings
EDA	Revolving Loan Fund (RLF) Program	11.307	46	21	46	16
NOAA	Coastal Zone Management Administration Awards	11.419	32	11	34	1
NOAA	Pacific Fisheries Data Program	11.437	4	1	25	1
NOAA	Unallied Industry Projects	11.452	12	1	8	1
NOAA	Special Oceanic and Atmospheric Projects	11.460	11	4	36	3
NOAA	Habitat Conservation	11.463	45	19	42	5
NTIA	Broadband Technology Opportunities Program (BTOP)	11.557	33	19	58	15
NIST	Measurement and Engineering Research and Standards (MERS)	11.609	50	16	32	2

Source: OIG

^a 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. Counts may be larger than in table 1 because 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 the EDA Revolving Loan Fund, with 16, and the NTIA Broadband Technology Opportunities Program (BTOP), with 15. The program with the highest percentage of reports with material, nonresolution, and/or cross-cutting findings was NTIA BTOP with 58 percent.

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

- cost principles pertaining to allowable costs,
- reporting requirements (either deficient or late reports),
- preparation of appropriate financial statements,
- cash management requirements, and
- internal control policies concerning segregation of duties.

In addition, there were two noteworthy findings related to the “Special Tests and Provisions” associated with the EDA RLF program’s eight awards.

- noncompliance with RLF capital utilization rates² requirement and
- bank turnaround letters, demonstrating that credit is not otherwise available, could not be located.

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.³ The Department of Commerce *Financial Assistance Standard Terms and Conditions* (March 2008) provide 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.

The responsibilities of federal awarding bureaus in connection with for-profit audits, per the Department of Commerce *Grants and Cooperative Agreements 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, the NIST Technology Innovation Program (TIP) awards, NIST Measurement and Engineering Research Standards awards (MERS), and NTIA BTOP awards.

ATP, TIP, and MERS 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. MERS has made various awards since 1995 and continues to be an active award program.

² EDA generally requires recipients to have at least 75 percent of the RLF’s capital base loaned or committed at any given time. Five of the eight RLFs had not met this requirement. In three instances, it was recommended the RLF be terminated and funds put to better use and returned. In one instance, additional funds were sequestered. In addition, one recipient did not make computations to track compliance with the requirement. These findings resulted in recommendations of \$5.7 million funds to be put to better use.

³ 15 CFR § 14.26(c) and (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. 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).

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

	NTIA BTOP	NIST ATP	NIST TIP	NIST MERS
CFDA number	11.557	11.612	11.616	11.609
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 from OMB Circular A-133, § __.235	<i>Government Auditing Standards</i> and program-specific audit guidelines from OMB Circular A-133 § __.235
Audit threshold	>\$100,000	All awards	All awards	Award Amounts ≥\$500,000
Required components of audit reporting package				
Schedule of funds' sources and project costs	✓	✓	✓	✓
Independent auditor's report^a	✓	✓	✓	✓
Internal control and compliance report	✓	✓	✓	✓
Schedule of findings and questioned costs	✓	✓	✓	✓
Schedule of prior audit findings	✓	✓	✓	✓
Corrective action plan	✓	✓	✓	✓
Management assertions	Not applicable (n/a)	✓	N/A	N/A
Audited financial statements	If available (audit not required)	N/A	N/A	N/A

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

^aThe independent auditor's report is the opinion (or disclaimer) of 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.

We reviewed each report for compliance with the applicable reporting requirements (but not the quality of the underlying audits) and analyzed the results. Our observations are summarized in table 4.

Table 4.
Analysis by Bureau for OIG-Reviewed Commercial Audit Reports,
January–June 2013^a

Bureau	Program	CFDA	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings	Material Findings ^b	Non-resolution Findings ^c	Total Findings	Questioned Costs ^d
NIST	ATP	11.612	8	4	50	5	0	5	\$582,924
NIST	TIP	11.616	7	3	43	2	1	3	89,143
NIST	MERS	11.609	2	1	50	2	4	6	15,803
NTIA	BTOP	11.557	2	1	50	0	1	1	0

Source: OIG

^a 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.

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

^c *Nonresolution findings* are those with questioned costs less than \$10,000 or administrative findings.

^d *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 TIP and ATP programs were noncompliance with award requirements for allowable costs and cost principles, matching, level of effort, and reporting. The MERS program had one report with a matching issue, while the BTOP program had one report with allowable cost and cost principle issues.

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 Susan Roy at (404) 730-2063.

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