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 I
summarizes our observations.

¹See Office of Management and Budget (OMB) Circular A-133, § __400 (c).
Table 1.
Analysis by Bureau for OIG-Reviewed Single Audit Reports, January–June 2013

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

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 1,

- 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

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

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. 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 rates requirement and
- bank turndown 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. 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.

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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

<table>
<thead>
<tr>
<th>CFDA number</th>
<th>NTIA (BTOP)</th>
<th>NIST ATP</th>
<th>NIST TIP</th>
<th>NIST MERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit threshold</td>
<td>$&gt;100,000</td>
<td>All awards</td>
<td>All awards</td>
<td>Award Amounts ≥$500,000</td>
</tr>
</tbody>
</table>

**Required components of audit reporting package**

<table>
<thead>
<tr>
<th>Component</th>
<th>NTIA (BTOP)</th>
<th>NIST ATP</th>
<th>NIST TIP</th>
<th>NIST MERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule of funds' sources and project costs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Independent auditor's report*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Internal control and compliance report</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Schedule of findings and questioned costs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Schedule of prior audit findings</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Corrective action plan</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Management assertions</td>
<td>Not applicable (n/a)</td>
<td>✓</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Audited financial statements</td>
<td>If available (audit not required)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*The 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.

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.
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

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Program</th>
<th>CFDA</th>
<th>Reports Reviewed</th>
<th>Reports with Findings</th>
<th>Percentage of Reports with Findings</th>
<th>Material Findings</th>
<th>Non-resolution Findings</th>
<th>Total Findings</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIST</td>
<td>ATP</td>
<td>11.612</td>
<td>8</td>
<td>4</td>
<td>50</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>$582,924</td>
</tr>
<tr>
<td>NIST</td>
<td>TIP</td>
<td>11.616</td>
<td>7</td>
<td>3</td>
<td>43</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>89,143</td>
</tr>
<tr>
<td>NIST</td>
<td>MERS</td>
<td>11.609</td>
<td>2</td>
<td>1</td>
<td>50</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>15,803</td>
</tr>
<tr>
<td>NTIA</td>
<td>BTOP</td>
<td>11.557</td>
<td>2</td>
<td>1</td>
<td>50</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: OIG

* 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 1.

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

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

* 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.

cc: Lisa Casias, Director for Financial Management and Deputy Chief Financial Officer Barry E. Berkowitz, Director, Office of Acquisition Management Gordon Alston, Deputy Director for Financial Management Julie Tao, Director, Office of Internal Controls, Office of Financial Management Gary Johnson, Office of Acquisition Management, Grants Management Division Hari Sastry, Deputy Assistant Secretary for Resource Management Mark Daley, Deputy Director, Office of Acquisition Management Joanne Buenzli Crane, Acting Chief Financial Officer, NOAA Andrew Baldus, Chief Financial Officer, EDA Len Bechtel, Director and Chief Financial Officer, NTIA George E. Jenkins, Chief Financial Officer, NIST Edith McCloud, Associate Director for Management and Chief Financial Officer, MBDA