



October 3, 2014

**MEMORANDUM FOR:** Ellen Herbst  
Chief Financial Officer and Assistant Secretary for Administration



**FROM:** Andrew Katsaros  
Principal Assistant Inspector General for Audit and Evaluation

**SUBJECT:** Nonfederal Audit Results for the 6-Month Period Ending  
June 30, 2014

This memorandum provides an analysis of nonfederal audit reports, including a summary of findings that the Office of Inspector General (OIG) reviewed during the 6-month period ending June 30, 2014, for entities receiving federal awards subject to audit requirements. Section I discusses audit reports with findings that were submitted for states, local governments, tribes, colleges and universities, and nonprofit organizations. Section II discusses all reports, regardless of whether or not they had findings, that were submitted for commercial organizations.

### **I. Analysis of Audits Submitted for States, Local Governments, Tribes, Colleges and Universities, and Nonprofit Organizations**

Nonfederal entities (e.g., 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 conducted in accordance with Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

The purpose of the Single Audit Act is to establish standards for obtaining consistency and uniformity among federal agencies in conducting audits of expenditures of federal awards by nonfederal entities. 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 are required to 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 SEFA,
- a summary schedule of prior audit findings,
- auditor's reports of compliance and opinion on the financial statements, and
- a corrective action plan.

The responsibilities of federal awarding bureaus under 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<sup>2</sup> and auditee responses and determining whether the recommendations can be implemented. In instances with nonresolution findings,<sup>3</sup> we notify the responsible bureau of the findings and emphasize the importance of resolving them before the next audit; however, a formal response in accordance with Department Administrative Order (DAO) 213-5, "Audit Resolution and Follow-Up," is not required.

In instances with material findings,<sup>4</sup> the audit reports are resolved using the procedures of DAO 213-5. OIG notifies the auditee and the responsible bureau of the findings. We work with the bureaus to ensure that 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 presents summary analyses semiannually.

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

<sup>2</sup> OIG limits review of submitted audits to those with current or prior-year findings.

<sup>3</sup> *Nonresolution findings* are those with questioned costs less than \$10,000 or less-significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor.

<sup>4</sup> *Material findings* are those with questioned costs greater than or equal to \$10,000 or significant procedural or internal control findings, whose resolution OIG monitors.

OIG reviewed each submitted 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. Tables 1 and 2 summarize our observations. As shown in table 1, a total of 69 percent of all reports reviewed contained at least one audit finding.

**Table 1. Overview of OIG-Reviewed Single Audit Reports, January–June 2014**

Bureau	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings
EDA	41	32	78
NIST	16	12	75
NOAA	12	7	58
NTIA	15	9	60
Multiple bureaus <sup>a</sup>	32	20	63
<b>Total</b>	<b>116</b>	<b>80</b>	<b>69</b>

Source: OIG

<sup>a</sup> *Multiple* indicates that the single audit report included programs from more than one Departmental bureau.

Table 2 provides a summary analysis of reports reviewed, including the number of reports with findings (material, nonresolution, and cross-cutting). It shows that

- the Economic Development Administration (EDA), National Oceanographic and Atmospheric Administration (NOAA), National Telecommunications and Information Administration (NTIA), and National Institute of Standards and Technology (NIST) administered grants whose grantees had material findings (that is, questioned costs greater than \$10,000 or significant procedural or internal control findings, whose resolution OIG monitors);
- each of these four Department bureaus had between 10 and 47 nonresolution findings (that is, questioned costs less than \$10,000 or less-significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor);
- each of these four Department bureaus along with the U.S. Census bureau had between 1 and 98 cross-cutting findings (that is, less-significant procedural or internal control findings, usually affecting more than one Departmental program, whose resolution OIG does not monitor); and
- a total of approximately \$2.6 million of questioned costs were identified among all Departmental programs reviewed.

**Table 2. Types of Findings and Questioned Costs in OIG-Reviewed Single Audit Reports, January–June 2014**

Bureau	Type of Finding			Total Findings	Questioned Costs <sup>d</sup> (dollars)
	Material <sup>a</sup>	Non-resolution <sup>b</sup>	Cross-cutting <sup>c</sup>		
Census	0	0	2	2	0
EDA <sup>e</sup>	17	47	28	92	362,601
NIST	28	10	12	50	609,903
NOAA	9	17	98	124	1,292,007
NTIA	6	26	1	33	336,098
<b>Total</b>	<b>60</b>	<b>100</b>	<b>141</b>	<b>301</b>	<b>\$2,600,609</b>

Source: OIG

<sup>a</sup> *Material findings* are those with questioned costs greater than or equal to \$10,000 or significant procedural or internal control findings, whose resolution OIG monitors.

<sup>b</sup> *Nonresolution findings* are those with questioned costs less than \$10,000 or less-significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor.

<sup>c</sup> *Cross-cutting findings* are less-significant procedural or internal control findings, usually affecting more than one Departmental program, whose resolution OIG does not monitor.

<sup>d</sup> *Questioned costs amounts* are for federal share and are subject to change during the audit resolution/appeal process.

<sup>e</sup> EDA also had \$152,000 in funds to be put to better use.

The bureau programs with the most material findings, as shown in table 3, were the NIST Manufacturing Extension Partnership, with 28 findings, and the EDA Investment for Public Works, with 13 findings. The EDA Revolving Loan Fund program had the highest percentage of awards reviewed with material, nonresolution, and/or cross-cutting findings, with 60 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),
- cash management requirements, and
- cost principles pertaining to allowable activities.

**Table 3. Material Findings in OIG-Reviewed Single Audit Reports, January–June 2014 by Departmental Program**

Bureau	Program	CFDA Number <sup>a</sup>	Number of Awards in Reports Reviewed <sup>b</sup>	Number of Awards with Findings <sup>b</sup>	Percentage of Awards with Findings <sup>b</sup>	Material Findings
EDA	Investments for Public Works and Economic Development Facilities	11.300	12	7	58	13
EDA	Revolving Loan Fund Program	11.307	40	24	60	4
NIST	Manufacturing Extension Partnership	11.611	23	13	57	28
NOAA	Coastal Zone Management Administration Awards	11.419	21	3	14	1
NOAA	Unallied Management Projects	11.454	13	1	8	3
NOAA	Habitat Conservation	11.463	31	6	19	1
NOAA	Congressionally Identified Construction Projects	11.469	10	1	10	4
NTIA	Broadband Technology Opportunities Program	11.557	33	13	39	6

Source: OIG

<sup>a</sup> Catalog of Federal Domestic Assistance (CFDA) number

<sup>b</sup> An entity report may have more than one award per CFDA program listed on the SEFA. This table counts each CFDA award line on the report SEFA. Counts may be larger than in tables 1 or 2 because a report may have multiple awards for the same CFDA number.

## II. 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>5</sup> The Department of Commerce’s *Financial Assistance Standard Terms and Conditions* (January 2013) provides guidance that an audit shall be performed (unless otherwise specified in the terms and conditions of the award) when the

<sup>5</sup> 15 C.F.R. §14.26(c) and (d).

federal share amount awarded is \$500,000 or more over the duration of the project period. Additionally, these Standard Terms and Conditions provide 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, according to the Department's *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's 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, NIST Technology Innovation Program (TIP) awards, and NTIA Broadband Technology Opportunities Program (BTOP) awards. Each of these programs also has recipients that could be subject to audit in accordance with OMB Circular A-133, addressed in part I.

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

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. We have begun receiving the third-year audit reports for review.

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 4).

**Table 4. Audit Guidance, Threshold, and Requirements for Reporting Packages for Commercial Audit Submissions Reviewed by OIG**

	<b>NTIA BTOP</b>	<b>NIST ATP</b>	<b>NIST TIP</b>
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 from OMB Circular A-133, § 235
Audit threshold	>\$100,000	All awards	All awards
Schedule of funds' sources and project costs	✓	✓	✓
Independent auditor's report <sup>a</sup>	✓	✓	✓
Internal control and compliance report	✓	✓	✓
Schedule of findings and questioned costs	✓	✓	✓
Schedule of prior audit findings	✓	✓	✓
Corrective action plan	✓	✓	✓
Management assertions	N/A <sup>b</sup>	✓	N/A
Audited financial statements	If available (audit not required)	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, § 235

<sup>a</sup> 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.

<sup>b</sup> N/A = not applicable

We reviewed each report for compliance with the applicable reporting requirements (but not for the quality of the underlying audits) and analyzed the results. Table 5 summarizes our review of program-specific audits of awards made to commercial organizations by NIST and NTIA. It shows that

- a total of 56 percent of all reports reviewed contained at least one finding,
- both NIST and NTIA administered grants with material findings and nonresolution findings, and
- a combined total of approximately \$305,000 in questioned costs were identified among NIST and NTIA programs.

There was an ATP finding for noncompliance with cost principles pertaining to allowable costs. The most frequent finding type across the TIP program was noncompliance with matching and cost principles pertaining to allowable costs. The most frequent finding type across the BTOP program was noncompliance with equipment management and cost principles pertaining to allowable costs.

**Table 5. Analysis by Bureau for OIG-Reviewed Commercial Audit Reports, January–June 2014<sup>a</sup>**

Bureau	Program	CFDA Number	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> (dollars)
NIST	ATP	11.612	1	1	100	1	0	1	\$ 21,285
NIST	TIP	11.616	4	4	100	3	4	7	232,139
NTIA	BTOP	11.557	22	10	45	2	9	11	51,572
<b>Total</b>			<b>27</b>	<b>15</b>	<b>56</b>	<b>6</b>	<b>13</b>	<b>19</b>	<b>304,996</b>

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 or significant nonfinancial findings.

<sup>c</sup> *Nonresolution findings* are those with questioned costs less than \$10,000 or less-significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor.

<sup>d</sup> *Questioned costs* amounts are for federal share and are subject to change through the audit resolution/appeal process.

Our nonfederal audit team, which will provide the bureaus with 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.