

# Special Report: Audit Requirements

## What To Expect When You're Expecting a Federal Funds Audit

Are you getting ready for your grant to be audited?

Nervous about the whole experience?

Wondering what to expect when you're expecting the auditors to show up and start digging through your grant management?

## What To Expect During An Audit

Many of us have gone through the standard financial audit, but when the focus shifts to auditing grant management we may be a bit apprehensive about what areas will be under scrutiny.

Fortunately, the DCAA Contract Audit Manual (CAM) gives us a lot of insight into the focus areas so grantees can prepare for this experience.

In this Special Report, we'll walk you through what to expect when you're expecting a federal funds audit.



To your success!

*Lucy*

Lucy Morgan CPA

Compliance Warrior at MyFedTrainer.com

# Three Main Audit Sections

When your grants are getting audited, the process focuses on three main areas:

## Audit Section One: Financial Statements

This part of the audit includes looking at the Financial Statements and Schedule of Expenditures of Federal Awards.

This section of the audit looks to see if the financial statements are presented fairly in conformance with GAAP and if the schedule of expenditures of Federal Awards is presented fairly in relationship to the overall Financial Statements.

*So far, so good. You've probably been through this type of analysis before.*

## Audit Section Two: Internal Controls

This part of the audit looks at internal control and compliance with the Government Auditing Standards.

Review of internal controls includes testing internal controls and analyzing and reporting on the results of the tests.

You may be familiar with this as well as looking at Internal controls are typically included as part of a standard financial audit.

*But be prepared for increased scrutiny of the financial management system, and internal policies and procedures.*

Expect a focus on how your organization's internal controls *safeguard the federal funds* flowing in and out of your organization.

# Audit Section Three: Compliance with Laws and Regulations

*Here's where the rubber meets the road from a grant management standpoint.*

Auditors are looking for compliance with applicable laws, regulations and federal award terms and conditions.

Everything related to your grant management process and program results are open for inspection.

You should expect discussions with direct and indirect personnel about a wide range of topics from subrecipient monitoring to suspension and debarment compliance documentation.

For organizations new to this part of the audit process, it can be a nerve-racking experience wondering what will be the focus areas of this part of the audit.

# How to Keep Grant Funds Flowing

Fortunately the federal government gives us big hints about grant management “*gotchas*” (IF you know where to look...)

In the next part of this Special Report, we’ll look at 13 focus areas of compliance with federal laws and regulations that get the most focus on the federal funds audit.

Get these 13 areas *right* and you will be well on your way to keeping the federal funds flowing to your organization.

These are the focus areas of compliance that get the most scrutiny during an audit of federal funds.

## 13 Ways to Lose Grant Funding

Do you remember in the Indiana Jones movie where the Holy Grail is wheeled off to a government warehouse, never to be seen again?

It may feel a bit like that when you realize where audit reports go.

Similar to the Professor Jones’ experience, the federal government has “virtual” warehouse where all the audit reports get filed.

By examining the program reporting form that gets submitted to the clearinghouse we found 13 of the most common grant management “gotchas.”

Focus on these 13 areas and you will be on the right track to keep the grant funds flowing.

## Gotcha #1: Unallowed Activities

Are you doing any activities that are not allowed by your award terms and conditions?

No matter how good (or bad) your intentions, if it's an activity not called out in the specific objectives of the program, don't spend federal funds on it.

## Gotcha #2: Disallowed Costs

Costs must be reasonable, allocable, not be limited or excluded by federal cost principles regulations, applied uniformly to all activities, and adequately documented.

- Even if you spend federal funds on allowable items but don't document the spending, costs can be disallowed.

Paying back grant funds that are long gone is no fun.

## Gotcha #3: Poor Cash Management

If grant funds are advanced to your organization, be careful that your cash management practices are meeting the administrative requirements.

Taking cash draws too soon, or requesting too much can land you in hot water.

Remember, you should only be drawing the funds you need to pay for the immediate cash needs of the program (and be able to prove that is the case as well.)

## Gotcha #4: Ignoring Davis-Bacon Act

Remember all those pesky contract provisions like Davis-Bacon Act?

Yes, the auditors really do check that you include them in your contracts and comply with them as well.

## Gotcha #5: Ineligible Participants

Do your grants come with eligibility requirements?

Then you are required to ensure only eligible people receive the benefits of the federal program.

This little detail can trip up a lot of grantees.

## Gotcha #6: Sloppy Equipment and Real Property Management

Wondering what happened to all that property?

Property and Equipment purchased with federal funds come with a long list of requirements that go on long past the end of the grant.

Make sure you have a system in place to continue safeguarding, tracking and reporting on property and equipment-even after the grant is done.

## Gotcha #7: Clueless Matching, Level of Effort, and Earmarking

If your award comes with matching or earmarking requirements, how will you show the federal agency that you are complying?

Likewise, level of effort requires you to demonstrate that the amount of money spent translates into specific program objectives.

Can you show if you ahead or behind of schedule for the funds spent to date?

## Gotcha #8: Spending Outside the Period of Availability

If you try to start too early or finish up too late, it can cost you.

Auditors look to make sure that your grant spending is within the timeframe allowed in the federal award.

## Gotcha #9: Oblivious Procurement and Suspension and Debarment Monitoring

Let's face it; procurement with federal funds has a lot of requirements.

In addition to promoting opportunities for women and minority owned small business and watching for conflicts of interest, you also have to monitor that no federal monies are flowing out to excluded parties.

It's easy to miss something if you don't have good procurement practices in place.

## Gotcha #10: Disregarding Program Income

Are you in program income denial?

Some organizations like to pretend that program income is like Las Vegas, when happens in the program, stays in the program.

However, program income may require special reporting.

Program income can also have different requirements for what needs to happen with the money generated.

Watch the requirements and you can keep the auditors happy.

## Gotcha #11: Real Property Acquisition and Relocation Assistance

These two little items can get you in trouble if you aren't careful.

Sometime, the awarding agency doesn't want you getting "real" and prohibits the purchase of real property with federal funds.

Similarly the awarding agency doesn't want you relocating people who get homesick and want to move back after a few months.

Know the limitations of your award, and recognize the perils of relocation when it's paid for with federal funds.

## Gotcha #12: Overdue or Missing Reporting

Timeliness matters.

If you procrastinate in completing your federal reports, or ignore them all together, it will come back to bite your organization.

## Gotcha #13: Shoddy Subrecipient Monitoring

This last "gotcha" catches many grantees.

When you subcontract, subaward, or pass-through federal funds, you are "stepping in the shoes" of the federal agency.

This means that you are responsible that those lower-tier organizations are spending federal funds properly.

In other words, you become the "gotcha" enforcer.

Make sure that you do an adequate level of monitoring and that you document what you find.

Auditors focus on this every time.



# Key Elements to Create Grant Management Success

How do you measure whether your grant management is successful?

Here are some ways you can tell if what you are doing is working...*or not!*

Are you doing a lot of work, but NOT seeing the desired result of more funding?

Do you feel like you're doing the "*right*" things, but you are NOT keeping your funding agencies happy?

Do you have audit FINDINGS and PROGRAM *issues*?

## 3 Reasons Why It Matters More Now (OMB Super Circular-Style)

There are over \$500 billion in Federal funds awarded each year.

If you want to increase the ability to *reach more people*, and *make a bigger difference*, you *don't* want to be frozen out of Federal awards.

Here are three reasons why successful grant management is more important than ever with the new OMB Super Circular.

### Reason #1:

Federal agencies will do a RISK assessment of your organization prior to awarding Federal \$\$\$

### Reason #2:

Federal agencies will put more emphasis on performance MEAUREMENTS over the life of award than ever before.

## Reason #3:

Federal agencies have a mandate to make sure AUDIT findings are resolved in a timely manner and will have new tools to make sure that the same old problems don't continue year-after-year.

*So don't wait...*

It's more important than ever because the NEW grant regulations are highlighting risk reduction BEFORE the award even starts and performance measurements and clean audit reports AFTER the award starts.

# 8 Audit Secrets Every Grant Manager Should Know

Do you wish you had a crystal ball of what Federal auditors look for when they arrive to make sure your grant management is up to par?

## What Are They Looking For?

If you knew what the primary focus areas were, could you concentrate your compliance efforts at your organization?

Sure this doesn't cover everything, but do you get the *big things* right?

We analyzed the recent shocking audit results at BBBS to determine what are the *major areas of concern* by the auditors.

Here are *7 secrets that you should know* when the auditors arrive to look at your grant spending:

## Secret #1 Good Works Don't Buy You a Pass

It doesn't matter how many testimonials you have, and how long your history of doing good works.

If you don't comply with the requirements, there is not a "*get out of jail free*" card.

Even *nice people* have to comply with the Administrative Requirements and Cost Principles.

## Secret #2 You Still Need To Deliver

The pickiest compliance plan in the world still requires *real-life results*.

You can have the best internal control environment, but at the end of the day you still need to *complete the objectives* of the program.

That's why auditors look at the reports for *program performance and accomplishments*.

It's not enough to spend the federal funds perfectly, you need to *stand and deliver* as well.

## Secret #3 You Have to Ask Hard Questions

Monitoring is an important part of any grant and it can't be left to just one or two Finance-types.

- Are you asking the hard questions about the use of federal funds?
- Are our subrecipients providing sufficient backup for their spending?
- What happened to those laptops that were sitting around in the back room?
- Do we really need to pay those consultants so much?

It takes a "*village*" to stop the waste, fraud and abuse of taxpayer dollars. Don't leave it for the "*other*" guy.

## Secret #4 Loosey Goosey Won't Cut It

It seems so great.

All this work to win your grant and now...you get to spend OPM (aka "*other people's money*")

Full steam ahead to meet the program objectives...

*Wait a minute...what's missing?*

When programs get into trouble there is almost always a break down in the internal control environment.

Simply put, grant expenditures, including personnel, fringe benefits, travel expenditures, consultant payments and other types of spending are happening *fast and furiously*-and no one is taking time for the “*paperwork*.”

*Stop, take a deep breath* and then make sure:

- The spending is for allowable costs *ONLY*
- The spending is authorized by the right people ahead of time
- The spending is being *sufficiently documented*

## Secret #5 When You Take the Money Matters

*Hey, life is good!*

Whenever you want money, you just draw funds and they appear in your bank account a couple days later.

- What a *relief* to not have to worry about insufficient funds ever again!

But then there’s that *inconvenient truth*: You can’t draw more money than you need for your immediate cash needs.

- This is one of the *first things* auditors look for when they start digging through your records.

Lots of groups get in trouble with this one, *so watch out*.

Make sure you can prove you *don’t* have excess grant funds sitting around in your organization’s bank account.

- The money should come in and turn right around to pay for allowable costs for that *specific grant*.

It’s not there to cover *other* needs.

## Secret #6 Get Stuck on Budgets

It may not seem like it, after watching the budget battles on Capitol Hill, but Federal Agencies *really do expect* grant recipients to *stick to the program budget*.

If things happen to change the program needs, have that conversation with your Program Officer.

Don't put your head in the sand and say "*la, la, la, la*"

Even worse, don't start spending the budget on a bunch of things that were *never* contemplated in the grant proposal just because you have a little "*extra money*."

Reporting your spending against the program budget is a *requirement* for receiving federal funds.

*Don't plead ignorance.*

A mindless "*use it or lose it*" spending plan will get you in trouble every time.

## Secret #7 Be the Adult

Sometimes you just have to put on the *big-boy pants* and insist that the regulations are followed.

We all hate to *chase people down* for receipts and approvals.

Physical inventories are not anyone's *favorite weekend activity*.

But that is part of *responsible grant administration*.

Be the adult and require the rules that bring the grant funds flowing be followed.

It's better to *do it now* than experience the consequences of grant funds being frozen, or disallowed.

# Secret #8 Don't Assume People Know the Right Thing to Do

Training is often a requirement for corrective action plans-*after you screw up.*

How about offering training in the *beginning*, middle *and* end so people will *actually know* what is expected of them?

The organizations that stay out of trouble know that *training is part of good grants management* and will keep them out of trouble in the long term.

## How about you?

Have you *survived an audit* by your federal agency and lived to tell about it?

- Did you have gold stars or battle wounds?
- What did you learn from the process?

## 3 Little Known Factors That Can Affect Your Audit

When you manage a federal grant, good grant management expects you to understand the allowable cost compliance requirements.

After all, the goal of the Cost Principles regulations is to make sure that money spent on Federal grants is used for:

- Allowable activities
- Allowable goods and services

But there are also *three little considered factors* that affect your Single Audit Act Audit. They are:

- Ethics
- Insight
- Communication

## Ethics Matter: 5 Things Auditors Look For:

Ethics involve more than just signing a Code of Conduct once a year. Auditors look at the overall environment at the organization as well.

## What is the ethical climate at the organization?

1. Are there incentives to mischarge spending between federal and non-federal programs?
2. Do managers investigate and enforce penalties when grant funds are misused?



3. Is there an overall awareness at the organization of the importance to keep federal spending separate from non-federal spending?
4. Does a list of allowable and unallowable costs exist for the use of personnel working on the federal award?
5. Is there an approval process for spending?

## 2 Ways Auditors Evaluate the Risk of Bad Internal Controls:

Additionally, auditors evaluate the risk of bad internal controls which could lead to federal funds being spent on unallowable costs. They look for management insight and communication in that assessment.

### #1 Insight: Can You Identify the Holes:

- Do managers have a clear enough understanding of their staff, processes and controls to identify where unallowable costs could "*slip through*" and be charged to a federal grant without being detected?

### #2 Communications: What is the Process?

In other words, how is the concept of allowable costs vs. unallowable costs communicated to staff?

- Are budget vs. actual reports shared and reviewed by the appropriate level of management on a timely basis?
- Are there established channels of communication both within the organization and outside such as program officers and board members?

# Examples of Compliance Activities:

Here are some examples of activities that support allowable cost compliance in the minds of Auditors:

- The supporting documentation for spending is compared to a list of allowable and unallowable costs
- An individual who is knowledgeable about the allowable activities and the allowable types of costs is the one who authorizes the spending.
- Calculations are checked for accuracy.
- Responsibility for activities and spending on federal vs. non-federal projects are clearly separated.
- Adequate separation of duties between authorizing and reviewing federal spending.
- Unallowable costs are detected and there is follow-up to determine the cause when appropriate.

Whether you're spending dollars or time on a federal grant, the expenditures need to be allowable. Allowability includes both the activities you spend time on, and the goods and services that are purchased.

# Are You Ready To Take Your Grant Management Even Further?

We've put together the most up-to-date and comprehensive online training on the new grant management regulations we've ever produced, we call it the **NEW Grant Management Boot Camp Bundle**.

Ready for the new regulations?

This special report you've just read has covered the very basics of building your own grant management expertise ...but that's just the beginning.

We've been expanding training and resources for grant management for nearly a decade. We've been fortunate enough to enjoy a lot of success along the journey, but it took a lot of work...and we've made our share of mistakes along the path.

- What if you could benefit directly from those years of experience – and avoid making similar mistakes?
- What if you could effortlessly access the lessons of grant managers and other professionals all working towards the same goal as you?
- What if you could easily keep up with the latest grant management resources, changes and trends?

We've got something to show you. We call it Grant Management Boot Camp, and it supports a well-trained workforce with training, e-mentoring and other resources to get you ready quickly and easily.

[Click Here](#) To See What **Grant Management Boot Camp** can do for you!