UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

September 10, 2015

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, 2015

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, 2015, 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.[1] 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."[2]

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 assesses

[1] Nonfederal audits included in this memorandum were submitted prior to December 26, 2014.

[2] The discussion in this memorandum is applicable to those nonfederal audit reports that the OIG reviewed during the reporting period and does not necessarily reflect current requirements and OIG responsibilities. OMB's new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards apply to audits of fiscal years beginning on or after December 26, 2014 (see 78 Fed. Reg. 78,589). Thus, many aspects of the nonfederal audit review process and requirements discussed in this memorandum (including the monetary threshold for annual audits and applicability of OMB Circular A-133) may no longer apply after that date.

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.[3]

With respect to those audit reports summarized in this memorandum, OIG was responsible for reviewing the submitted audit report[4] and auditee responses and determining whether the recommendations could be implemented. In instances with nonresolution findings,[5] we notified the responsible bureau of the findings and emphasized 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," was not required.

In instances with material findings,[6] the audit reports will be resolved using the procedures of DAO 213-5. OIG notified the auditee and the responsible bureau of the findings. We will 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

[3] See Office of Management and Budget (OMB) Circular A-133, § 400(c).

[4] OIG limits review of submitted audits to those with current or prior-year findings.

[5] *Nonresolution findings* are those with questioned costs less than $10,000 or less-significant procedural or internal control findings, usually affecting a specific program, the resolution of which OIG does not monitor.

[6] *Material findings* are those with questioned costs greater than or equal to $10,000 or significant procedural or internal control findings, the resolution of which OIG monitors.

recommendations. OIG has conducted this review on an ongoing basis and has presented summary analyses semiannually.

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 2015

Bureau	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings
EDA	39	30	77
MBDA	1	1	100
NIST	6	3	50
NOAA	15	8	53
NTIA	6	5	83
Multiple bureaus[a]	11	7	64
Total	**78**	**54**	**69**

Source: OIG
[a] *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), administered grants whose grantees had material findings (i.e., questioned costs greater than $10,000 or significant procedural or internal control findings, the resolution of which OIG monitors);
- EDA, the Minority Business Development Administration (MBDA), National Institute of Standards and Technology (NIST), National Oceanic and Atmospheric Administration (NOAA), and National Telecommunications and Information Administration (NTIA) had between 1 and 65 nonresolution findings (i.e., questioned costs less than $10,000 or less-significant procedural or internal control findings, usually affecting a specific program, the resolution of which OIG does not monitor);
- EDA, NOAA, and NTIA had between 1 and 8 cross-cutting findings (that is, less-significant procedural or internal control findings, usually affecting more than one Departmental program, the resolution of which OIG does not monitor); and
- a total of approximately $30,077 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 2015

Bureau	Type of Finding			Total Findings	Questioned Costs[d] (dollars)
	Material[a]	Non-resolution[b]	Cross-cutting[c]		
EDA	1	65	6	72	29,011
MBDA	0	1	0	1	0
NIST	0	9	0	9	0
NOAA	0	23	1	24	1,066
NTIA	0	4	8	12	0
Total	**1**	**102**	**15**	**118**	**$30,077**

Source: OIG

[a] *Material findings* are those with questioned costs greater than or equal to $10,000 or significant procedural or internal control findings, the resolution of which OIG monitors.

[b] *Nonresolution findings* are those with questioned costs less than $10,000 or less-significant procedural or internal control findings, usually affecting a specific program, the resolution of which OIG does not monitor.

[c] *Cross-cutting findings* are less-significant procedural or internal control findings, usually affecting more than one Departmental program, the resolution of which OIG does not monitor.

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

The bureau program with the most material findings, as shown in table 3, was the EDA Investment for Public Works and Economic Development Facilities program.

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

- reporting requirements (either deficient or late reports),
- cost principles pertaining to allowable costs,
- lack of segregation of duties,
- CPA firm playing a large role in preparation of Financial Statements, and
- assistance from the CPA in preparation of the SEFA.

Table 3. Material Findings in OIG-Reviewed Single Audit Reports, January–June 2015 by Departmental Program

Bureau	Program	CFDA Number[a]	Number of Awards in Reports Reviewed[b]	Number of Awards with Findings[b]	Percentage of Awards with Findings[b]	Material Findings
EDA	Investment for Public Works and Economic Development Facilities	11.300	13	10	77	1

Source: OIG

[a] Catalog of Federal Domestic Assistance (CFDA) number.

[b] 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. 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 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 summarized in this memorandum was the same as for single audits (see section 1). During the current review period, our analysis of audits submitted for commercial and other organizations included the NIST Technology Innovation Program (TIP) awards, NIST Measurement and Engineering Research Standards awards (MERS), 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.

TIP and MERS awards range from 1 to 5 years in duration, with audits due after the first, third, and fifth years. TIP awarded grants from 2009 through 2011. The last group of audit report submissions will be due in 2015 for TIP awards. MERS has made various awards since 1995 and continues to be an active award program.

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

	NTIA BTOP	NIST TIP	NIST MERS
CFDA number	11.557	11.616	11.609
Audit guidance	Program-specific audit guidelines for BTOP	*Government Auditing Standards* and program-specific audit guidelines from OMB Circular A-133, § 235	*Government Auditing Standards* and program-specific audit guidelines from OMB Circular A-133, § 235
Audit threshold	>$100,000	All awards	Award amounts ≥$500,000
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	✓	✓	✓
Audited financial statements	If available (audit not required)	N/A[b]	N/A

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

[a] 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.

[b] 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 29 percent of all reports reviewed contained at least one finding,
- NIST administered grants with material findings, and
- a combined total of approximately $288,699 in questioned costs were identified among NIST programs.

The most frequent finding type across the TIP program was noncompliance with matching and reporting requirements and cost principles pertaining to allowable costs. The most frequent finding type across the MERS program was noncompliance with cash management or procurement requirements and lack of segregation of duties.

Table 5. Analysis by Bureau for OIG-Reviewed Commercial Audit Reports, January–June 2015[a]

Bureau	Program	CFDA Number	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings	Material Findings[b]	Non-resolution Findings[c]	Total Findings	Questioned Costs[d] (dollars)
NIST	TIP	11.616	6	3	50	3	0	3	288,699
NIST	MERS	11.609	6	0	0	0	3	3	
NTIA	BTOP	11.557	5	2	40	0	0	0	0
Total			**17**	**5**	**29**	**3**	**3**	**6**	**288,699**

Source: OIG

[a] Each of these programs has recipients that could be subject to an audit in accordance with OMB Circular A-133; if significant, results for those reviews appear in section 1.

[b] *Material findings* are those with questioned costs greater than or equal to $10,000 or significant nonfinancial findings, the resolution of which OIG monitors.

[c] *Nonresolution findings* are those with questioned costs less than $10,000 or less-significant procedural or internal control findings, usually affecting a specific program, the resolution of which OIG does not monitor.

[d] *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.

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