




April, 15, 2014

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
December 31, 2013

This memorandum provides an analysis of nonfederal audit reports, including a summary of findings that OIG reviewed during the 6-month period ending December 31, 2013, for entities receiving federal awards subject to audit requirements. Section I discusses audit reports submitted for states, local governments, tribes, colleges and universities, and nonprofit organizations. Section II discusses reports 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 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.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,² we notify the responsible bureau of the finding(s) 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 Resolutions and Follow-Up,” is not required.

In instances with material findings,³ the audit reports are resolved using the procedures of DAO 213-5. OIG notifies the auditee and the responsible bureau of the finding(s). 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.

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. Tables 1 and 2 summarize our observations. As shown in table 1, a total of 72 percent of all reports reviewed contained at least one finding.

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

² *Nonresolution findings* are those with questioned costs less than \$10,000 or administrative findings.

³ *Material findings* are those with questioned costs greater than or equal to \$10,000 and/or significant nonfinancial findings.

Table I. Overview of OIG-Reviewed Single Audit Reports, July–December 2013

Bureau	Reports Reviewed	Reports with Findings	Percentage of Reports with Findings
EDA	31	24	77
NOAA	18	14	78
NTIA	13	7	54
NIST	5	5	100
MBDA	1	0	0
Multiple bureaus ^a	21	14	67
Total	89	64	72

^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:

- EDA, NOAA, NTIA, and NIST administered grants whose grantees had material findings;
- Each of four Department bureaus had between 3 and 37 nonresolution findings (that is, less-significant procedural or internal control findings, usually affecting a specific program, whose resolution OIG does not monitor);
- Each of six Department bureaus had between 1 and 28 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);
- A total of approximately \$3.2 million of questioned costs were identified among all Departmental programs.

Table 2. Types of Findings and Questioned Costs in OIG-Reviewed Single Audit Reports, July–December 2013

Bureau	Type of Finding			Total Findings	Questioned Costs (dollars)
	Material	Non resolution	Cross cutting		
EDA	7	37	12	56	401,611
NOAA	2	9	28	39	25,192
NTIA	5	19	14	38	2,762,594
NIST	4	3	5	12	28,526
ITA	0	0	1	1	0
PTO	0	0	1	1	0
Total	18	68	61	147	\$3,217,923

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.

The bureau programs with the most material findings, as shown in table 3, were the EDA Revolving Loan Fund (RLF), with seven findings, and the NTIA Broadband Technology Opportunities Program (BTOP), which had five findings. The program with the highest percentage of reports with material, nonresolution, and/or cross-cutting findings was NIST’s Construction Grant Program, with 100 percent; however, it should be noted that there was only one report reviewed in that program.

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,
- internal control policies concerning segregation of duties, and
- equipment and real property management requirements.

In addition, there were two noteworthy findings related to the “Special Tests and Provision” associated with EDA’s RLF program:

- noncompliance with RLF capital utilization rates⁴ requirement and
- inadequate or missing documentation in loan files.

Table 3. Material Findings in OIG-Reviewed Single Audit Reports, July–December 2013, by Departmental Program

Bureau	Program	CFDA Number ^a	Number of Awards in Reports Reviewed ^a	Number of Awards with Findings ^b	Percentage of Awards with Findings ^b	Material Findings
EDA	Investments for Public Works and Economic Development Facilities	11.300	10	4	40	0
EDA	Revolving Loan Fund Program	11.307	31	23	74	7
NOAA	Sea Grant Support	11.417	5	1	20	2
NOAA	Regional Fishery Management Councils	11.441	5	4	80	0
NOAA	Habitat Conservation	11.463	7	3	43	0
NTIA	Broadband Technology Opportunities Program	11.557	18	8	44	5
NIST	Measurement and Engineering Research and Standards	11.609	4	3	75	1
NIST	Manufacturing Extension Partnership	11.611	9	4	44	2
NIST	NIST Construction Grant Program	11.618	1	1	100	1

Source: OIG

^a CFDA number = Catalog of Federal Domestic Assistance 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.

⁴ EDA generally requires recipients to have at least 75 percent of the RLF’s capital base loaned or committed at any given time.

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.⁵ The Department of Commerce *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, 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, according to 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'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, 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 was due in 2013 for ATP and will be due in 2015 for TIP. MERS has made various awards since 1995 and continues to be an active award program.

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).

⁵15 C.F.R. §14.26(c) and (d).

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

	NTIA BTOP	NIST ATP	NIST TIP	NIST MERS
CFDA number ^a	11.557	11.612	11.616	11.609
Audit guidance	Program-specific audit guidelines for BTOP	Program-specific audit guidelines for ATP cooperative agreements	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	All awards	Award amounts ≥\$500,000
<i>Required components of audit reporting package:</i>				
Schedule of funds' sources and project costs	✓	✓	✓	✓
Independent auditor's report ^b	✓	✓	✓	✓
Internal control and compliance report	✓	✓	✓	✓
Schedule of findings and questioned costs	✓	✓	✓	✓
Schedule of prior audit findings	✓	✓	✓	✓
Corrective action plan	✓	✓	✓	✓
Management assertions	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

N/A = not applicable

^a CFDA number = Catalog of Federal Domestic Assistance number

^b 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.

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 39 percent of all reports reviewed contained at least one finding,
- both bureaus administered grants whose grantees had material findings,
- both bureaus had 10 nonresolution findings each (this number excludes significant procedural or internal control findings, which usually affect a specific program and whose resolution OIG does not monitor),
- a combined total of approximately \$51,000 in questioned costs were identified among NIST and NTIA programs.

Two finding types included in the TIP program were (1) noncompliance with cost principles related to allowable costs and (2) cost share matching requirements. The most frequent finding type across the MERS program was noncompliance with reporting requirements, while the BTOP program had noncompliance with cost principles related to allowable cost and issues with reporting requirements.

Table 5. Analysis by Bureau for OIG-Reviewed Commercial Audit Reports, July–December 2013^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	ATP	11.612	2	0	0	0	0	0	\$ 0
NIST	TIP	11.616	8	3	38	1	2	3	12,030
NIST	MERS	11.609	4	3	75	0	8	8	3,054
NTIA	BTOP	11.557	14	5	36	3	10	13	36,387
Total			28	11	39	4	20	24	51,471

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.

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.

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 Reporting and Internal Controls
Julie Tao, Director, Office of Internal Controls, Office of Financial Management
John Geisen, Director, Office of Acquisition Management, Grants Management Division
Hari Sastry, Deputy Assistant Secretary for Resource Management
Mark B. Daley, Deputy Director, Office of Acquisition Management
Jon Alexander, 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
Anthony P. Scardino, Chief Financial Officer, USPTO