



Common Audit Deficiencies

Pattillo, Brown & Hill, LLP

Todd Pruitt, Audit Partner
Kent Willis, Audit Manager



WHO WE ARE

PATTILLO, BROWN & HILL, LLP

Certified Public Accountants & Business Consultants

- Founded in 1923
- Five locations in TX & NM
- Have provided auditing services to 15 of the 24 COGs in the State of Texas



COMMITMENT to the present... **VISION** for the future.



Goals

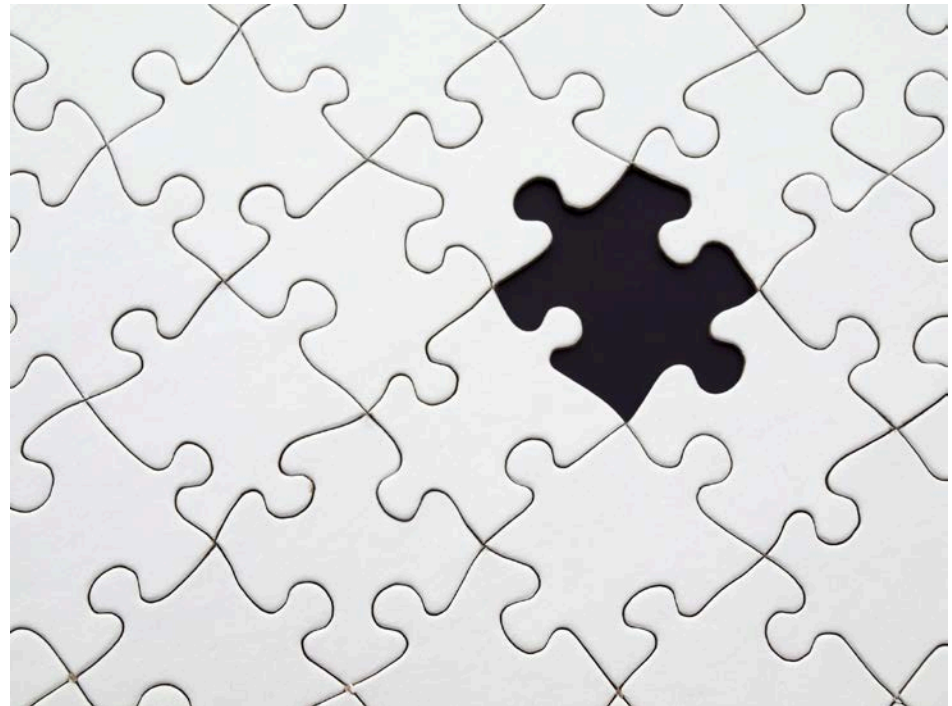
- The types of audit deficiencies
- The underlying cause: internal controls
- Common Single Audit findings





Audit deficiencies explained

- Audit deficiency, or **finding**
- Auditor's conclusion that *something is wrong*
- **Types of findings include:**
 - Internal control deficiencies
 - Noncompliance
 - Fraud
 - Abuse
 - Questioned costs
- Limited to items that are *significant or material*





The frameworks for findings

- **Government Auditing Standards/Yellow Book (financial statements)**
 - Significant deficiency in internal control
 - Material weakness in internal control
 - Material noncompliance
- **Uniform Guidance (Single Audit)**
 - Significant deficiency in internal control
 - Material weakness in internal control
 - Material noncompliance
 - Questioned costs

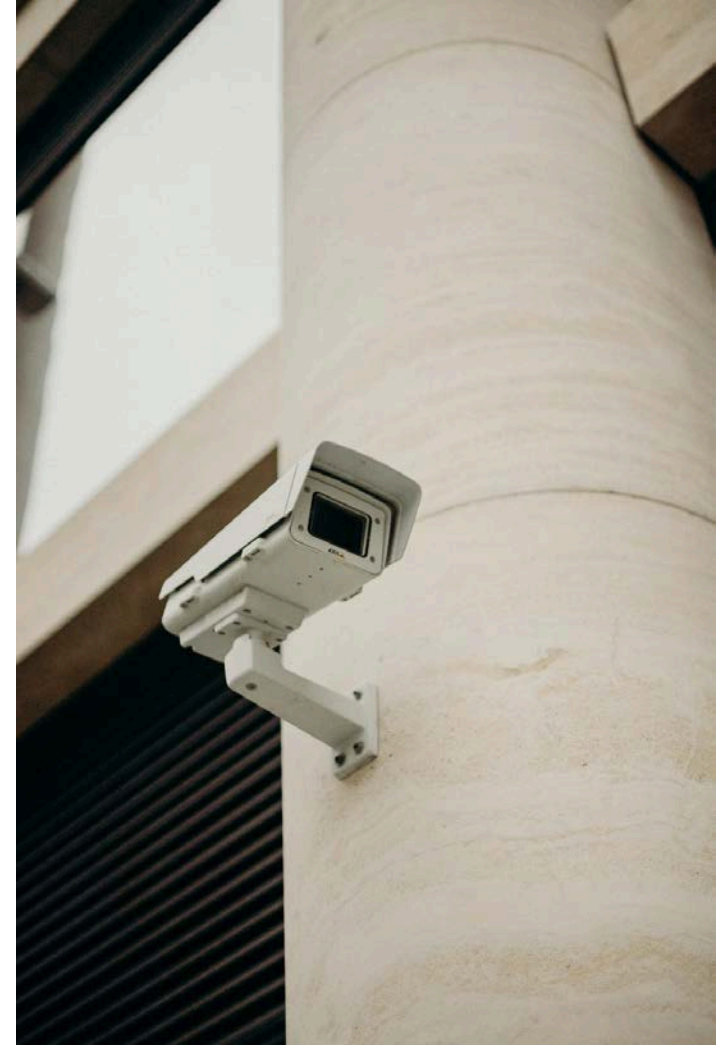




What causes a finding?

- Usually, a **failure of internal controls leads** to audit findings.
- **Internal control defined as:**

“A process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”





I/C in a single audit – why so important?

- Single audits require the auditor to test controls for operating effectiveness.
- Typically, I/C issues have been one of the most prominent problems noted in:
 - Peer review programs
 - Federal QCRs
 - Ethics investigations





COSO: an internal control framework

- COSO formed in 1985 in response to corporate fraud
- To create a universal, principles-based framework of internal control
- Implementation of the COSO Framework provides:
 - A means to **apply internal control to any type of entity**, regardless of industry or legal structure
 - A means to **identify and analyze risks**, and to develop and management appropriate responses to those risks
 - Greater confidence in **board of director's oversight**
 - Greater confidence regarding the **achievement of entity objectives**

COSO Internal Control — Integrated Framework Principles



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Control Environment

- 1 The organization demonstrates a commitment to integrity and ethical values.
- 2 The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- 3 Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- 4 The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- 5 The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

- 6 The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- 7 The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- 8 The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- 9 The organization identifies and assesses changes that could significantly affect the system of internal control.

Control Activities

- 10 The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- 11 The organization selects and develops general control activities over technology to support the achievement of objectives.
- 12 The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information & Communication

- 13 The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- 14 The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- 15 The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

- 16 The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- 17 The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

For more information
about COSO,
visit coso.org.



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Using Part 6 of the New OMB Compliance Supplement on Internal Control

A History Lesson...

- Prior to the 2016 Compliance Supplement, Part 6 provided illustrative controls for all 5 COSO components for each type of compliance requirement.
- However, Part 6 had become out-of-date and many controls provided were actually processes.
- In 2016, Part 6 was revised to be more generic and to refer to the updated COSO.
- Many detailed controls that had been provided were deleted.



Using Part 6 of the New OMB Compliance Supplement on Internal Control

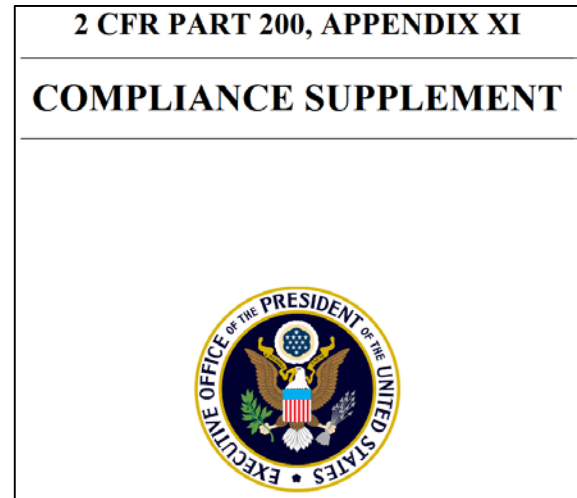
A History Lesson...

- Many auditors and auditees wished for more detailed example controls in Part 6, like what had been provided in the past.
- A collaborative effort was undertaken by the GAQC and OMB to overhaul Part 6 during 2018-2019.
- The ultimate result was the issuance of a completely new Part 6 in the 2019 Compliance Supplement.



The 2019 Part 6 includes:

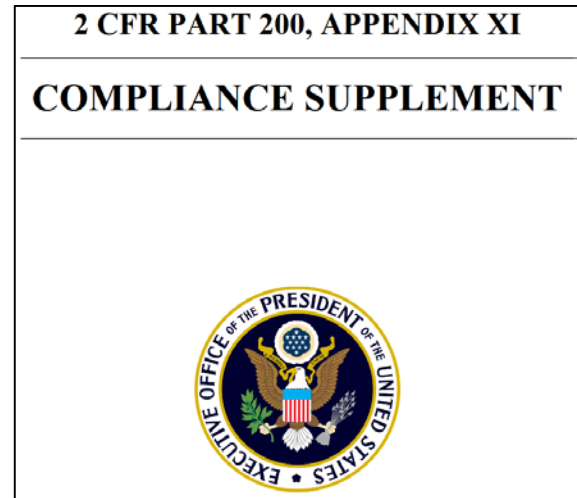
- A summary of the requirements for I/C under the Uniform Guidance
- A background discussion on important I/C concepts
- Appendices with illustrative entity-wide and specific controls





The 2019 Part 6 Appendices:

- The Appendices are intended to provide illustrative I/C for each of the 5 components of I/C.
- Appendix 1 – Entity-wide controls over compliance
- Appendix 2 – Control activities specific to individual compliance requirements.

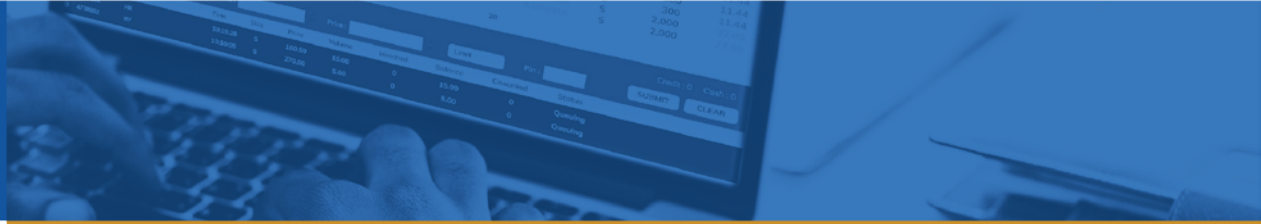




A Word of Caution!

- Illustrative controls provided are not intended to be all-inclusive or a checklist of required I/C.
- Could have adequate I/C even though some or all illustrative controls are not present.
- Could have other appropriate I/C operating effectively that have not been included among the illustrations.
- Exercise judgment in determining the most appropriate and cost-effective I/C.





Appendix 1 – Entity-wide Controls

- Are considered governance controls that apply to most, if not all, types of compliance requirements for one or more federal programs.
- Generally established at the entity-wide level versus the federal program or type of compliance requirement level
- Often occur in the following I/C components:
 - Control environment
 - Risk assessment
 - Information and communication
 - Monitoring





Examples of controls – control environment

- A code of conduct is documented and communicated
- Conflict of interest statements obtained from key management and governing body
- Whistleblower submission process exists to receive and evaluate concerns over compliance
- Personnel with federal award compliance responsibilities are properly trained on responsibilities
- Consequences for noncompliance with the code of conduct are enforced



Examples of controls – risk assessment

- Management identifies key compliance objectives for types of compliance requirements
- Management analyzes and identifies compliance risk including fraud risk
- Risk mitigation strategies implemented
- Employees receive proper training to address identified risks
- Governing body periodically reviews a report of risks identified and actions taken during the period
- Regulatory compliance changes are monitored so risk assessments can be properly adjusted



Examples of controls – information and communication

- Management verifies the sources and reliability of information used in making management decisions
- When derived from IT systems, security administration, program maintenance and program execution controls are in place
- Relevant compliance requirement changes are communicated to employees responsible for compliance
- Effective channels of communication exist with granting agencies



Examples of controls – monitoring

- Management regularly monitors the effective operation of critical control activities including key performance indicators
- If an internal audit function exists, its audit plans align with the program risk assessment
- Findings, recommendations and observations by internal and external auditors are distributed and reviewed
- Corrective action plan status is monitored



Appendix 1 – Entity-wide Controls

Appendix 1 includes illustrative controls for each of the 4 I/C components, broken down by each related principle:

Principle 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.

Illustrative controls for Principle 6:

- Management establishes an effective risk assessment process that includes the use of a specific risk matrix.
- Management identifies key compliance objectives for types of compliance requirements.
- Management identifies and evaluates risk tolerances related for controls over compliance





Appendix 2 – Specific Controls

- Specific controls are considered operational-level controls that apply to individual types of compliance requirements.
- Often occur in the following I/C component:
 - Control activities





Examples of controls – control activities

- Documented policies
- Authorization and approval
- Management review
- IT system configuration
- IT system access

Key controls often occur here!



Part 6 – Appendix 2 – Other important considerations

- A well-designed system of I/C assigns a control to each WCGW (what could go wrong).
- Usually employs a mix of preventive controls and detective controls
- Don't forget!
 - All five components of I/C have to be present and functioning for I/C to be designed effectively
 - Control activities on their own are not an effective system of I/C.



PART 6 - APPENDIX 2

Illustrative Specific Controls - Control Activities (excerpted from Greenbook).

Note – Regarding revision from June 2019 publication. Content moved to correct cells shown with yellow highlight. Content deleted shown with light blue highlight. Note – the highlighting is not 508 compliant.

Principle 10. Design Control Activities: management should design control activities to achieve objectives and respond to risks.

A. ACTIVITIES ALLOWED OR UNALLOWED B. ALLOWABLE COSTS/COST PRINCIPLES	C. CASH MANAGEMENT	E. ELIGIBILITY	F. EQUIPMENT AND REAL PROPERTY MANAGEMENT
<p>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as miscoding, inappropriate cost transfers, budget overages, segregation of duties concerns, unauthorized changes to system configurations, fraud, unauthorized payments, etc.</p>	<p>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as time lapses between funds transfer and disbursement, fraud, liquidity pressures, inherent risks with subrecipients, etc.</p>	<p>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process such as providing benefits to ineligible individuals, calculating amounts to be received for or on behalf of individuals incorrectly, unauthorized changes to system configurations, fraud, unauthorized payments, etc.</p>	<p>Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process for equipment and real property such as inaccurate or incomplete recordkeeping, inappropriate use, unidentified dispositions, segregation of duties concerns, fraud, loss, damage, theft, etc.</p>
<p>Management reviews applicable award agreements or contracts for specific allowable activities requirements, budget parameters, indirect rates, fringe benefit rates, and those activities/costs which require pre-approval</p>	<p>Management reviews applicable award agreements or contracts to determine applicability of drawdown method (advance</p>	<p>Management reviews applicable award agreements or contracts and identifies specific eligibility requirements including benefits to be paid.</p>	<p>Management reviews applicable award agreements or contracts and identifies specific equipment and real property requirements.</p>

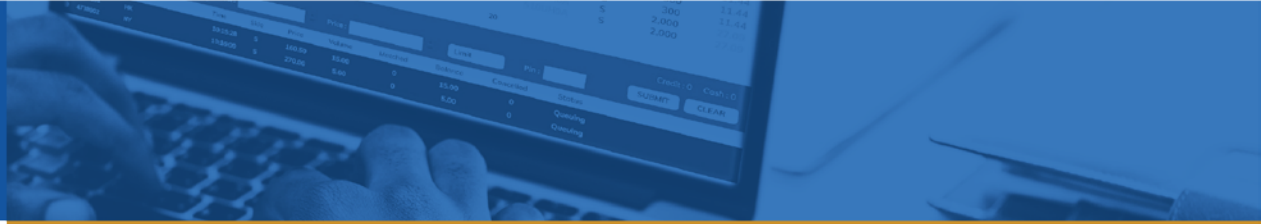


OMB Compliance Supplement

2 CFR PART 200, APPENDIX XI

COMPLIANCE SUPPLEMENT





OMB Compliance Supplement

Part 2 of the Compliance Supplement Matrix of Compliance Requirements

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Program Number												
10.000	Y	Y	Y	N	Y	N	N	N	Y	Y	N	Y



OMB Compliance Supplement

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. N/A
- E. Eligibility
- F. Equipment, Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability
- I. Procurement, Suspension & Debarment
- J. Program Income
- K. N/A
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provision



A. Activities Allowed/Unallowed

B. Allowable Costs/Cost Principles

- Direct Costs
 - Did you spend the funding on something **unallowable**?
- Indirect Costs
 - Did you follow your **Cost Allocation Plan**?





A. Activities Allowed/Unallowed

B. Allowable Costs/Cost Principles

- **Common finding:** Auditee failed to follow their Cost Allocation Plan.
- **Typical cause:** Lacking or weak internal controls governing review of the tools used to implement the CAP.
- **Solution:** Implement a review process to ensure the worksheet or process performing indirect cost allocations actually agrees with the methods approved in the CAP.



A. Activities Allowed/Unallowed

B. Allowable Costs/Cost Principles

- **Common finding:** Auditee allocated payroll to its programs using an unallowable method.
- **Typical cause:** Auditee allocates payroll for employees working on multiple grants using budget.
- **Solution:** Employees working in multiple grant programs should maintain timesheets that document the amount of time spent on each.



C. Cash Management

- Reimbursement payments
- Advanced payments
- Interest earned on grants funds (greater than \$100) should be submitted to the agency at least quarterly





C. Cash Management

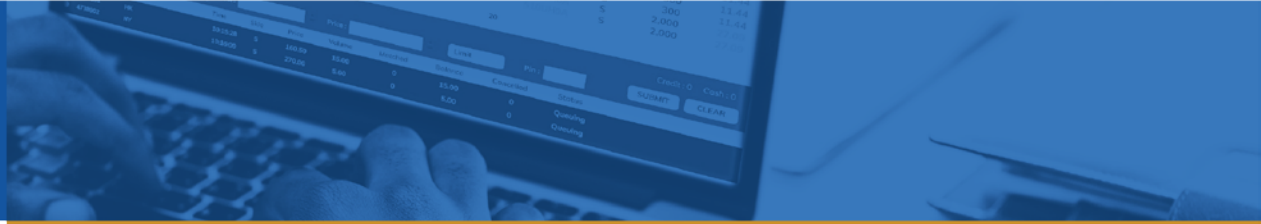
- **Common finding:** The records supporting a cash draw are incomplete or inaccurate.
- **Typical cause:** Lacking or weak internal controls governing review of the cash draw before submission to the agency.
- **Solution:** Agree cash draw amount back to a specific record of allowable direct and indirect costs and ensure the draw is reviewed by a knowledgeable employee.



E. Eligibility

- Individuals
- Groups of individuals
(area of service delivery)
- Subrecipients





E. Eligibility

- **Common finding:** The eligibility application computed by an employee has not been reviewed by a manager.
- **Typical cause:** Lacking or weak internal controls governing review of the eligibility applications.
- **Solution:** Eligibility applications should be reviewed by a manager to ensure accuracy.



F. Equipment, Real Property Management

- Purchases of equipment, real property
- Maintenance of equipment, real property (inventory)
- Disposals of equipment, real property





F. Equipment, Real Property Management

- **Common finding:** The grantee did not request approval from the granting agency prior to disposal of an asset with fair value of \$5,000 or more.
- **Typical cause:** Lacking or weak internal controls governing the disposal of equipment, real property.
- **Solution:** Train staff about the requirements for disposal (may be specific to each grant). Implement process for disposal.

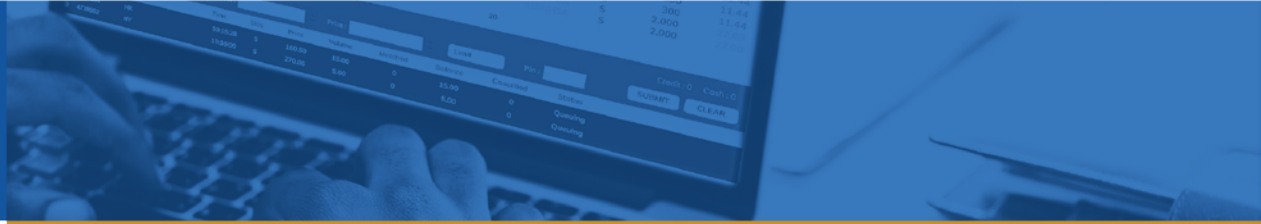


G. Matching, Level of Effort, Earmarking

- **Matching:** cost sharing

$$1 + 1 = 2$$

- **Level of effort:**
 - Specified level of service to be provided from period to period
 - Specified level of expenditures from non-Federal or Federal sources
 - Federal funds to supplement, not supplant
- **Earmarking:** minimum/maximum amount or percentage of program's funding must/may be used for specified activities



H. Period of Availability

- **Time period** during which the grantee may use the Federal funds.
- If authorized by the Federal entity, **unobligated balances may be carried over** and charged for obligations of a subsequent funding period.
- Grantee should liquidate all obligations incurred under the award **not later than 90 days after the end** of the funding period.





I. Procurement, Suspension & Debarment

- 2 CFR 200.317 – 200.326: Procurement Standards
- **General procurement standards (200.318)** include:
 - Grantee must **use its own documented procurement procedures**, which reflect applicable State, local and Federal laws
 - Key: use the *most restrictive* law, regulation, or policy
 - Grantee must maintain **written standards of conduct** covering conflicts of interest and governing the selection, award and administration of contracts
- **Methods of procurement to be followed (200.320):**
 - Micro-purchases – less than \$3,000
 - Small purchases – greater than \$3,000, less than \$150,000. Obtain price or rate quotes.
 - Sealed bids – preferred method for construction



I. Procurement, Suspension & Debarment

- **Suspension & debarment**

- Suspension = a vendor is temporarily restricted from receiving Federal funds
- Debarment = a vendor is permanently restricted from receiving Federal funds

- **Three methods of compliance**

- Certification from the entity
- Search of SAM.gov list of excluded parties
- Inclusion as a contract provision



I. Procurement, Suspension & Debarment

- **Common finding:** The grantee did not utilize one of the three methods of compliance for suspension & debarment.
- **Typical cause:** Lacking or weak internal controls governing the suspension & debarment process.
- **Solution:** The issue is *not* that grantees are typically making payments to excluded parties, but that there are no internal controls to ensure that doesn't happen.



J. Program Income

- Program income is gross income received that is **directly generated by the federally funded project** during the grant period.
 - Fees for services performed
 - The use of rental or personal property acquired with grant funds
 - The sale of commodities or items fabricated under a grant agreement
 - Payments of principal and interest on loans made with grant funds
- Should be used in one of 3 methods:
 - Deducted from outlays
 - Added to the project budget
 - Used to meet matching requirements





J. Program Income

- **Common finding:** The grantee utilized program income for unallowable costs. Or, program income was accumulated and not spent prior to requesting further Federal reimbursement.
- **Typical cause:** Lacking or weak internal controls governing the method for ensuring program income is used appropriately.
- **Solution:** Identify all program income and implement a process to ensure the funds are spent prior to requesting further reimbursement.



L. Reporting

- Recipients should use standard financial reporting forms, unless otherwise directed
 - Meet required **deadlines**
 - Report should **agree to underlying data**

FEDERAL FINANCIAL REPORT
(Follow form instructions)

1. Federal Agency and Organizational Element to Which Report is Submitted Federal Aviation Administration Airports Division		2. Federal Grant or Other Identifying Number Assigned by Federal Agency (To report multiple grants, use FFR Attachment) 3-##-####-###		Page of 1
3. Recipient Organization (Name and complete address including Zip code)				
4a. DUNS Number	4b. EIN	5. Recipient Account Number or Identifying Number (To report multiple grants, use FFR Attachment)	6. Report Type <input type="checkbox"/> Quarterly <input type="checkbox"/> Semi-Annual <input type="checkbox"/> Annual <input type="checkbox"/> Final	7. Basis of Accounting <input type="checkbox"/> Cash <input type="checkbox"/> Actual
8. Project/Grant Period (Month, Day, Year) From: _____ To: _____		9. Reporting Period End Date (Month, Day, Year) Cumulative		
10. Transactions <small>(Use lines a-c for single or combined multiple grant reports)</small>				
Federal Cash (To report multiple grants separately, also use FFR Attachment):				
a. Cash Receipts				
b. Cash Disbursements				
c. Cash on Hand (see a minus b)				
<small>(Use lines d-f for single grant reports)</small>				
Federal Expenditures and Unliquidated Balance:				
d. Total Federal funds disbursed				
e. Federal share of expenditures				
f. Federal share of unliquidated obligations				
g. Total Federal share (sum of lines e and f)				
h. Unliquidated balance of Federal funds (line d minus g)				
Recipient Share:				
i. Total recipient share required				
j. Recipient share of expenditures				
k. Remaining recipient share to be provided (line i minus j)				
Program Income:				
l. Total Federal share of program income earned				
m. Program income expended or accumulated with the deduction alternative				
n. Program income expended or accumulated with the addition alternative				
o. Unexpended program income (line l minus line m or line n)				
11. In Type By Date To Period To Base In Amount Charged Federal Share				
Expenses				
12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.				
13. Certification: By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and intent set forth in the award documents. I am aware that any false, fictitious, or fraudulent information may subject me to criminal, civil, or administrative penalties. (U.S. Code, Title 18, Section 1501)				
14. Typed or Printed Name and Title of Authorized Certifying Official			15. Telephone (Area code, number, and extension)	
16. Signature of Authorized Certifying Official			17. Email Address	
18. Agency use only.			19. Date Report Submitted (Month, Day, Year)	

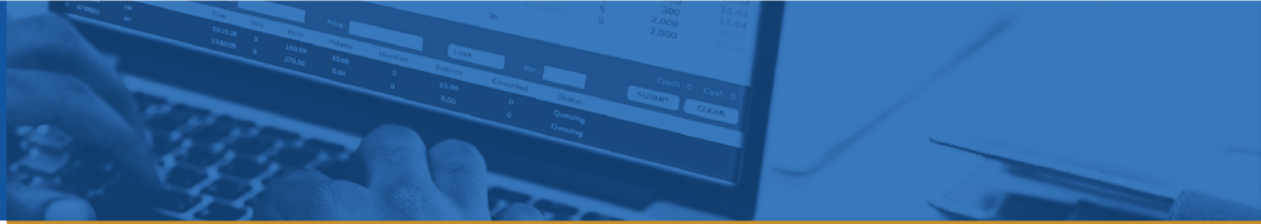
Standard Form 425 - Revised 10/11/2011
OMB Approval Number: 0348-0061
Expiration Date: 2/28/2015

Paperwork Burden Statement
According to the Paperwork Reduction Act, as amended, no persons are required to respond to a collection of information unless it displays a valid OMB Control Number. The valid OMB control number for this information collection is 0348-0061. Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0061), Washington, DC 20503.



L. Reporting

- **Common finding:** The grantee did not submit required reports in a timely manner.
- **Typical cause:** Turnover in key positions and/or a change in reporting requirements.
- **Solution:** Regular training of key grant employees and finance employees.



M. Subrecipient Monitoring

- If making a subaward (making you the pass-through entity), you must:
 - Determine **subrecipient eligibility**
 - **Identify** the Award
 - Perform **During-the-Award Monitoring**





M. Subrecipient Monitoring

- **Common finding:** The grantee failed to perform during-the-award monitoring.
- **Typical cause:** Unfamiliarity with the requirements for subrecipient monitoring.
- **Solution:** Regular training of key grant employees and finance employees. Implement a plan, perform risk assessments, check with subrecipients often.



N. Special Tests & Provisions

...oh, and another thing!



RESOURCES

Single Audit Resource Center www.singleaudit.org

Electronic Code of Federal Regulations, www.ecfr.gov





Questions & discussion

Todd Pruitt – tpruitt@pbhcpa.com

Kent Willis – kent.willis@pbhcpa.com

