

APPENDIX 7

Appendix 7

Audits Frequently Asked questions

1. What governs the audit requirements related to my grant?

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, implements the Single Audit Act Amendments of 1996 and establishes **uniform audit requirements for grantees that administer federal programs**. Under these requirements, grantees that expend more than \$500,000 annually in federal awards must have a single audit performed for that year.

As required by Circular A-133, a **Compliance Supplement** was developed to provide auditors with guidance for implementing the requirements of the Single Audit Act. The Supplement establishes 14 types of compliance requirements that apply to virtually all federal programs.

In addition to OMB Circular A-133 and the related Compliance Supplement, Module 4, Auditing, of the Financial Accountability System Resource Guide discusses the various requirements applicable to the audit of public funds, including the expenditure of grant funds. In addition to establishing audit requirements for Texas public schools, Module 4 also provides guidance that complements the American Institute of Certified Public Accountants, *Audit and Accounting Guide, State and Local Governments* and supplements the *Government Auditing Standards*, United States Government Accountability Office.

2. Are TEA resources available to LEAs that provide guidance on federal audit requirements?

The Financial Accounting and Reporting, the Auditing and the Data Collection and Reporting modules of the *Texas Education Agency Financial Accountability System Resource Guide* provides additional information regarding audits of school districts and financial reporting. To obtain *Texas Education Agency Financial Accountability System Resource Guide* on CD-ROM, contact Publications Distribution at the Texas Education Agency (512-463-9744) or view the Resource Guide on the TEA website at: <http://ritter.tea.state.tx.us/financial.audits/>.

3. What is an audit finding?

Audit findings are one result of an audit and may involve deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. Audit findings may pertain to fiscal, performance or program requirements stipulated in law, rule or contract. Generally, auditors may disclose instances in which an organization failed to comply with a legal requirement or local policies and procedures or failed to develop and implement an adequate system of internal controls to ensure compliance with legal requirements and local policy and procedure. In certain instances, OMB Circular A-133 requires independent auditors to report the following as audit findings.

- a. Reportable conditions in internal control over major programs
- b. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
- c. Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program.
- d. Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program.
- e. The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion.
- f. Known fraud affecting a Federal award.
- g. Instances where the results of audit follow-up procedures disclosed that the status of a prior audit finding(s) was materially misrepresented.

Example of Audit Finding:

Anywhere Independent School District

Reference No. 08-1

Financial Reporting

NOGA ID: 08610101123456
NOGA Title: ESEA Title I, Part A – Improving Basic Programs
CFDA No.: 84.010A

In accordance with Section 80.20(b)(1) of Title 34 of the Code of Federal Regulations, districts are required to file accurate, current and complete disclosures of the financial results of a federal award. Fittingly, the Texas Education Agency (TEA) requires all grantees to file expenditure reports electronically. Because the district did not train its newly hired staff accountant on the proper reporting of expenditures, the district submitted erroneous expenditure reports with the TEA resulting in overpayments to the district of \$17,362.77. Accordingly, auditors questioned the overpayments of \$17,362.77 and recommend that the district refund this amount to the TEA. Auditors did not identify any other instances of overpayments to the district but did recommend that the district train its staff accountant on the district's policy and procedure for reporting expenditures for federal awards to the TEA.

4. What does a questioned cost mean?

A **questioned cost** is an amount that is associated with the program deficiency or weakness. A questioned cost means an amount that is questioned by the auditor because a violation or possible violation of a provision of law, regulation, contract, or grant, where the costs, at the time of the audit, are not supported by adequate documentation, or where the costs appear unreasonable.

Example of Questioned Cost:

Questioned Cost: In the audit finding above, the \$17,362.77 reimbursed to local education agency in excess of actual Title I, Part A expenditures constitute questioned costs.

5. Our audit indicated that the district overclaimed expenditures for one or more programs administered by the No Child Left Behind Program Coordination Division. Where do I send the refund check?

A check for overclaimed expenditures must be mailed to the Texas Education Agency, P.O. Box 13717, Austin, Texas 78711-3717. The Notice of Grant Award ID, Fund Source Name, i.e., Title I, Part A, and the Grant Year appear on the face of the check to ensure proper identification by the Agency.

6. What are some examples of audit findings that were disclosed for the 2006-2007 School Year?

- Staff did not meet the highly qualified requirements for the ESEA Title I program.
- Unallowable expenditures (prohibited by law or rule or not supported by campus improvement plan).
- Lack of documentation for payroll charges.
- Payroll coded incorrectly (wrong fund and function).
- Reimbursement for expense incurred after end date of grant.
- Expenditures exceeded budget
- Unapproved capital expenditures