

Opportunities for Ohioans with Disabilities
Fiscal Division/Audit Unit
Revised on December 11, 2012

Top Ten Audit Findings

1. Payroll
2. Lack of Supporting Documentation
3. Cost Allocation Plan
4. Unallowable Costs
5. Budget
6. Equipment and Inventory
7. Internal Controls
8. Board of Directors
9. Conflict of Interest
10. Independent Audits

1. Payroll (usually has the highest questioned cost amount)

- a. Failure to support payroll costs with sufficient Personal Activity Reports (for employees that work less than 100% on the grant), usually results in the highest questioned cost amount;
- b. Maintain PARs but invoice/bill based on budget.
- c. Failure to properly represent alternate source of funding for employees (for employees that work less 100% on the grant).

A-122 (Non-profits)

2 CFR, Part 230, Appendix B 8) Compensation for personal services m. support of salaries and wages (in part), “(1) The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m (2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency. (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards... Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards: (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.”

A-87 (State and Local Governments)

2 CFR, Part 225, Appendix B, Compensation for personal services (h) support of salaries and wages (in part), “Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation...

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a

statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes...”

A-21 (Educational Institutions)

2 CFR Part 220, Appendix A, General Provisions for Selected Items of Cost (J) (10)

(b) (2), “ (b) The apportionment of employees’ salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will— (2) Produce an equitable distribution of charges for employee’s activities... “(2) Criteria for Acceptable Methods...” parts (a) through (g).

As a subgrantee, your agency must develop a Personal Activity Report that is compliant with the corresponding Federal circular. Examples of Personal Activity Reports may be found on the Internet. Remember, payroll expenditures should be based on actual costs not budgeted costs, as well as reflect an after-the-fact accounting of actual time spent on grant activities.

2. Lack of Supporting Documentation – no or insufficient documentation exists to support the cost.

A-122 (Non-profit)

2 CFR Part 230, Appendix A, A. Basic Considerations, 2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria: g. Be adequately documented.

A-87 (State and Local Government)

2 CFR Part 225, Appendix A, Part C Basic Guidelines, (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: **(J)** be adequately documented.

A-21 (Educational Institutions)

2 CFR Part 220, Appendix A, A. Purpose and Scope, 2. (e), “The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.”

It is recommended that all vouchers, invoices, receipts, purchase orders, credit card statements, cancelled checks, etc., be kept to support all expenditures.

3. Cost Allocation - Failure to maintain a current Cost Allocation Plan for shared expenses (multiple funding sources), i.e. rent, utilities, and copiers.

A-122 (Non-profit): 2 CFR 230, Appendix A, Section D

A-87 (State and Local Government): 2 CFR 225, Appendix E, Section C

A-21 (Educational Institution): 2 CFR 220, Appendix A, Section C, (4)

4. Unallowable Costs

a. Alcoholic beverages/Entertainment costs (includes food)

A-122 (Non-profit): 2 CFR 230, Appendix B, #3 and #14

A-87 (State and Local Government): 2 CFR 225, Appendix B, #3 and #14

A-21 (Educational Institution): 2 CFR 220, Appendix A, Section J, #3 and #17

See Request for Proposal, Section M – Costs to Be Reimbursed, “Per State of Ohio regulations, costs for food and beverages are not reimbursable and should not be included in contractor or subcontractor direct cost budgets.”

b. Advertising

A-122 (Non-profit): 2 CFR 230, Appendix B, #1

A-87 (State and Local Government): 2 CFR 225, Appendix B, #1

A-21 (Educational Institution): 2 CFR 220, Appendix A, Section J, #1

c. Lobbying

A-122 (Non-profit): 2 CFR 230, Appendix B, #25

A-87 (State and Local Government): 2 CFR 225, Appendix B, #24

A-21 (Educational Institution): 2 CFR 220, Appendix A, Section J, #28

d. Travel and meals over the current state rates. Refer to the following Web sites to determine allowable rates:

U.S. General Services Administration
www.GSA.gov

Ohio Office of Budget and Management
<http://obm.ohio.gov/MiscPages/TravelRule/>

Remember, for overnight stays, on days traveling to and from, meals are reimbursable at 75% of the daily GSA.gov rate.

e. Miscellaneous, administrative, or indirect costs (Excluding up-to-date allocation plans, as pre-approved by OOD)

Your general ledger should not have expenditures designated as ‘miscellaneous’ or ‘administrative’ costs, rather all costs should be charged to an approved budget cost category and/or line item.

Indirect costs must be supported by documentation. If you have a pre-approved indirect cost rate from a Federal cognizant agency, it must be submitted with your budget proposal.

f. Contracts, for compensation, with advisory board member

g. Costs outside the grant period

A-122 General Principles A. Basic Considerations 2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under these principles.

A-87, C. Basic Guidelines, 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

A-21 C. Basic Considerations 2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

5. Budget - Expending grant funds for non-budget costs

6. Equipment and Inventory – failure to properly tag and report equipment purchased with grant funds; failure to maintain a current and complete inventory listing.

EDGAR, 34 CFR Parts 76 and 80:

(f) The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information:

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.

(iii) Source of the equipment, including the award number.

(iv) Whether title vests in the recipient or the Federal Government.

(v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.

(vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).

(vii) Location and condition of the equipment and the date the information was reported.

(viii) Unit acquisition cost.

(ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates ED for its share.

(2) Equipment owned by the Federal Government must be identified to indicate Federal ownership.

(3) A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records must be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system must be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Secretary.

State of Ohio Procurement Policies - Class 21, Supplies, Materials and Minor Expenditures states: “This class of expense includes purchases of all supplies and materials regardless of the amount with the exception of food, fuel, and motor vehicle supplies. It includes equipment repair parts installed by agency personnel, fire and police items related to maintenance of law, order, and safety and small tools and equipment costing \$300 or less per unit (e.g. hammers, saws, keys). Capital items costing less than \$100 per unit should be charged to this class. Transportation and freight charges should be included as part of merchandise cost.”

7. Internal Controls

- a. **Lack of segregation of duties** - A strong internal control environment should include processes that are designed to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations): **2 CFR 215, Subpart Part C Post Award Requirements, 215.21, (b)(3)** - (3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

A-21 (Educational Inst.): **2 CFR 220, Appendix A, C(4) Allocable Costs (d)(2)**

“(2) Internal controls. The institution’s financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.”

b. Lack of proper authorization for payments of goods or services

A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations): **2 CFR 215, Subpart Part C Post Award Requirements, 215.21, (b)(2)** - Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

c. Failure to maintain an accounting system that includes extractable general ledger for each program that receives funding.

A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations): **2 CFR 215, Subpart Part C Post Award Requirements, 215.21, (b)(1)** “Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 215.52. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.”

d. Lack of policies and procedures

A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations): **2 CFR 215, Subpart Part C Post Award Requirements, 215.21, (b)** Recipients’ financial management systems shall provide for the following. **(6)**, “Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.”

CFR 215, 215.44 Procurement procedures. - (a) all recipients shall establish written procurement procedures.

8. Board of Directors

- a. **Lack of involvement with agency fiscal/internal control issues** (reference Robert's Rules of Order)
- b. **Lack of properly maintained minutes and other support for establishing, maintaining and enforcing agency policies** (reference Robert's Rules of Order, Article 10, The Officers and the Minutes, #60)

9. Conflict of Interest

- a. **Subgrantee official or employee participates personally in activities of the grant in which that individual holds a personal financial interest.**

A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations): **2 CFR 215, 215.42 Codes of conduct**, "The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved."

10. Independent Audits (A-133)

Subpart B--Audits § __.200 Audit requirements. (a) Audit required. Non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § __.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single audit conducted in accordance with § __.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

d. Failure to timely submit the required audit package.

§ __.320 Report submission.

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

For frequency of audits, see § __.220 **Frequency of audits.**

e. Failure to contract with competent independent auditor.

§ __.305 Auditor selection.

(a) Auditor procurement. In procuring audit services, auditees shall follow the procurement standards prescribed by the Grants Management Common Rule (hereinafter referred to as the "A-102 Common Rule") published March 11, 1988 and amended April 19, 1995 [insert appropriate CFR citation], Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations," or the FAR (48 CFR part 42), as applicable (OMB Circulars are available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503).

f. Failure to identify OOD pass-through grants;

Subpart C--Auditees § __.300 Auditee responsibilities.

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

g. Improper charging of non-Single Audit (A-133) costs to OOD grants.

§ __.230 Audit costs. (Read in its entirety)