



Demystifying Audits

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Agenda

- Categories of Audits for Higher Education
- Demystifying the Audit Process
- Understanding the A-133 Audit Using the Compliance Supplement
- Financial Aid Versus Contracts and Grants
- Third Party Service Providers
- Most Common Audit Findings
- Surviving the Audit
- Questions

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Categories of Audits for Higher Education

- Financial statement opinion audits
- A-133 single audits
- Program specific audits
- Performance audits
- Other audits Include but are not limited to:
 - Internal Audits
 - Statutory Audits
 - Facilities Audits
 - Security and Privacy Assessments
 - Contract Audits

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Demystifying the Audit Process

- Clearly understand everything you can about the audit
 - What is the scope of audit?
 - What type of audit is it?
 - Who is requiring it and why?
 - When will the audit take place?
 - What areas or programs will be evaluated?
 - Who are the key players from the audit entity?
 - Who are the key players internally for this audit?
 - How does the audit effect your department and more specifically you?

“Know” what is going to happen, why its happening, when it will happen and how it will effect you!

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Demystifying the Audit Process

- Typical tasks that are performed in most audits
 - An entrance conference is held
 - Interviews of key personnel are conducted
 - Evaluations are done of policy and procedure, controls, fraud, waste, and abuse, compliance, efficiency, effectiveness, etc..
 - Transactions and/or account balances are selected and tested
 - Potential issues, gaps, or weaknesses are identified and vetted
 - Remaining issues are categorized as to their importance
 - Findings are developed
 - The audit report and/or management letters are prepared and issued
 - A close meeting is held

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Demystifying the Audit Process

- How auditors know what steps to perform
 - Financial statement audit requirements are outlined in the GAAS (Generally Accepted Auditing Standards) and Generally Accepted Government Auditing Standards (GAGAS) for governmental type entities
 - A-133 single audit requirements are set forth in OMB Circular A-133 and the OMB A-133 Compliance supplement
 - Program audit procedures are determined by the granting agencies and are set forth in audit guides
 - Internal audit procedures are determined by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA)
 - Governmental performance audit requirements are outlined in GAGAS
 - Statutory or policy audit procedures are determined by statutes, legislation, and policies
 - Auditor judgment is required in ultimately determining what procedures are to be performed to meet audit objectives under specific standards or guides

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Understanding the A-133 Audit Using the Compliance Supplement

• Part I – Introduction/Background/Applicability

Part I of the Compliance Supplement provides background information on the Single Audit Act, related OMB Circulars, who must receive a single audit and how to use the Compliance Supplement.

The Compliance Supplement serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without this Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing this Supplement is a more efficient and cost-effective approach to performing this research. **For the programs contained herein, this Supplement provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.**

The Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. **For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.**

Understanding the A-133 Audit Using the Compliance Supplement

• Part 2 – Types of Compliance Requirements

CFDA	Types of Compliance Requirements													
	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Administrative Requirements	Eligibility Requirements	Cost Accounting	Debarment	Disposal	Management Information Systems	Program Objectives	Procurement	Record Retention	Reporting	Subrecipient	System of Internal Controls	System of Internal Controls	System of Internal Controls
EA – Department of Education (ED)														
EA 002	Y	Y	Y			Y	Y	Y	Y				Y	Y
EA 003	Y	Y	Y			Y	Y	Y	Y				Y	Y
EA 011	Y	Y	Y			Y	Y	Y	Y				Y	Y
EA 027							Y	Y	Y				Y	Y
EA 178	Y	Y	Y				Y	Y	Y				Y	Y
EA 032-01													Y	Y
EA 032-02													Y	Y
EA 044	Y	Y	Y				Y	Y	Y				Y	Y
EA 047														
EA 048														
EA 068	Y	Y	Y			Y	Y	Y	Y				Y	Y
EA 217	Y	Y	Y			Y	Y	Y	Y				Y	Y

Understanding the A-133 Audit Using the Compliance Supplement

• Part 3 – Compliance Requirements

The objectives of most compliance requirements for Federal programs are generic in nature. For example, most programs have eligibility requirements for individuals or organizations. While the criteria for determining eligibility vary by program, the objective of the compliance requirement that only eligible individuals or organizations participate is consistent across all programs.

Rather than repeat these compliance requirements, audit objectives, and suggested audit procedures for each of the programs contained in Part 4 – Agency Program Requirements and Part 5 – Clusters of Programs, they are provided once in this part.

Specific guidance is offered in the following areas:

- Administrative requirements
- Subrecipients
- Internal Controls
- Improper Payments
- American Recovery and Reinvestment Act (A Compliance Supplement Addendum was issued recently governing the audit of ARRA funds)

Understanding the A-133 Audit Using the Compliance Supplement

• Part 7 - Guidance for Programs Not in the Compliance Supplement

OMB Circular A-133 states that for those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contract and grant agreements and the laws and regulations referred in such contract and grant agreements.

The purpose of Part 7 is to provide the auditor with guidance on how to identify the applicable compliance requirements for programs not included in this Supplement for single audits and for program-specific audits when a program-specific audit guide is not available.

The Compliance Supplement includes only the largest and/or riskiest Federal programs. However, there are more than 600 assistance programs currently funded by the Federal Government. Therefore, it is likely that the auditor will encounter programs that the auditor is required to test as major programs that are not included in this Supplement.

Financial Aid Programs Versus Contract and Grant Programs

Examples

Student Financial Assistance	Contracts and Grants
Pell Grant Stafford Loans PLUS Loans College Work Study	Research and Development Workforce Training Disaster Recovery Other Institutional Type Programs

Financial Aid Programs Versus Contract and Grant Programs

Student Financial Assistance	Contracts and Grants
Activities Allowed or Unallowed Matching, Level of Effort, Earmarking Reporting Financial Reporting Performance Reporting Special Reporting Special Tests and Provisions Eligibility Cash Management Allowable Costs/Cost Principles Period of Availability of Funds Procurement/Suspension & Debarment	Activities Allowed or Unallowed Matching, Level of Effort, Earmarking Reporting Financial Reporting Performance Reporting Special Reporting Special Tests and Provisions Eligibility Cash Management Allowable Costs/Cost Principles Period of Availability of Funds Procurement/Suspension & Debarment Program Income Davis Bacon Equipment/Real Property Management Real Property Acquisition/Relocation Subrecipient Monitoring

Student Financial Assistance Cluster

Department of Education/Department of Health and Human Services

CFDA 84.007	FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (FSEOG)
CFDA 84.032	FEDERAL FAMILY EDUCATION LOANS (FFEL)
CFDA 84.033	FEDERAL WORK-STUDY PROGRAM (FWS)
CFDA 84.038	FEDERAL PERKINS LOANS (FPL)—FEDERAL CAPITAL CONTRIBUTIONS
CFDA 84.063	FEDERAL PELL GRANT PROGRAM (PELL)
CFDA 84.268	FEDERAL DIRECT STUDENT LOANS (DIRECT LOAN)
CFDA 84.375	ACADEMIC COMPETITIVENESS GRANT (ACG)
CFDA 84.376	NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN TALENT GRANT (National SMART Grant)
CFDA 84.379	TEACHER EDUCATION ASSISTANCE FOR COLLEGE AND HIGHER EDUCATION GRANTS (TEACH Grants)
CFDA 93.342	HEALTH PROFESSIONS STUDENT LOANS, INCLUDING PRIMARY CARE LOANS AND LOANS FOR DISADVANTAGED STUDENTS (HPSL/PCL/LDS)
CFDA 93.364	NURSING STUDENT LOANS (NSL)
CFDA 93.925	SCHOLARSHIPS FOR DISADVANTAGED STUDENTS (SDS)

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Research and Development Cluster

The Federal Government sponsors research and development (R&D) activities under a variety of types of funding agreements, most commonly grants, cooperative agreements, and contracts, to achieve objectives agreed upon between the sponsoring agency and the institution. The types of R&D conducted under these agreements also vary widely. The objective of individual projects is explained in the Federal award document.

Funding for research programs has increased sharply in recent years and continues to increase. For example, the Department of Health and Human Services, National Institutes of Health (NIH) funding for research has doubled over the 5-year period ending in Federal Fiscal Year 2003.

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Third Party Service Providers

- Who are they?
- How are they audited?
 - External SAS 70 audit or within the A-133 Single Audit
- Expectations for Third Party Service Providers
 - Payroll processors
 - Outsourced technology centers
 - Billing/claims processors

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Most Common Audit Findings in a Single Audit

Student Financial Assistance	Contracts and Grants
File Maintenance Refunds Satisfactory Academic Progress Special Reporting	Cash Management Allowability of Costs Subrecipient Monitoring Special Reporting

Entitywide
Missing or Outdated Policy/Procedures Insufficient Evidence of Review/Approvals Improper Segregation of Duties Unsupported Journal Entries Auditor Identified Adjustments Inadequate Disclosures Inadequate Security of Systems and Facilities Inadequate Protection of Personal/Sensitive Information Failure to Remediate Prior Audit Comments Timely

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Surviving the Audit

- Understand everything you can about the audit and clarify expectations for you and your department
- Obtain list of auditor requested items as soon as possible and verify that the items are:
 - Up-to-date
 - Accurate
 - Complete
- Prepare your staff to be able to explain what they do and how they do it
- Have everything together and review it for completion prior to the auditors arrival
- Provide auditors your procedure/control documentation even if they don't ask for it
- Answer the auditors questions fully
- If the auditors ask an unusual question—probe and learn more about what they are trying to understand or determine
- Be open minded to issues and observations brought forward
- Cooperate fully with the auditors

Following the above guidelines will maximize the efficiency of the audit which means that you have more time to do your work and the auditors will finish their work more quickly.

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Questions



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