Single Audit Fundamentals

When an entity expends federal awards (either direct or indirect awards) in excess of $500,000 in its fiscal year, it is subject to the provisions of **OMB Circular A-133**, except for fiscal years beginning on or after December 26, 2014, in which case the threshold is $750,000, and the entity is subject to the provisions of the **Uniform Guidance** instead of **OMB Circular A-133**. A federal award can include, but is not limited to, grants, loans, food commodities, amounts passed through to subrecipients, program income, and cost reimbursement contracts.

To ensure all of the requirements of receiving federal awards are met, necessary information about the award should be obtained such as the title of the federal program, **Catalog of Federal Domestic Assistance (CFDA)** number, award name, award number (if applicable), federal awarding agency, and the applicable compliance requirements.

The entity providing the award should make this information available. If the federal award is passed through to another entity to carry out a federal program as a subrecipient (as opposed to a vendor/contractor), the pass-through entity is required to conduct monitoring of the subrecipient to provide reasonable assurance that the subrecipient administers the federal awards in compliance with federal requirements.

OMB Circular A-133, Subpart C or **Uniform Guidance, Subpart D**, as applicable, defines the auditee's (the entity receiving a Single Audit) responsibilities.

See *https://www.whitehouse.gov/omb/financial_fin_single_audit/* for OMB Circular A-133 and *https://www.whitehouse.gov/omb/grants_docs#final* for information on **Uniform Guidance**.

How to reduce audit fees

An **independent certified public accountant (ICPA)** charges for the time spent on an audit, just as an attorney providing legal services would; and additional hours spent on an audit may result in additional cost to your agency. In order to keep your audit costs down, you must plan ahead and make it as easy as possible for the ICPA to do his work in an efficient and effective manner.

Here are some strategies to reduce the cost of your audit engagement:

1. Keep your agency's books and records in good shape throughout the year by hiring competent staff or a CPA firm to keep your books.
2. Start early. An agency should start the process of procuring the services of the ICPA at least two months before its fiscal year-end, with the goal of having a signed engagement agreement before its fiscal year-end.
3. Consider bidding out your audit services to ensure a competitive cost.
4. Do not sign an engagement agreement that does not include the estimated cost of the engagement.
5. Get the list of records the ICPA needs before commencement of the audit, and accumulate them in an organized manner.
6. Designate a responsible person to be the contact person for the audit.
7. If you have followed these suggestions and still feel your audit fees are too high, talk to the ICPA. There may be additional assistance you can provide to the ICPA that will result in a lower fee.
8. Be reasonable about the true cost of the audit engagement. An inexpensive audit may not necessarily be a quality audit.

Louisiana Legislative Auditor

Better Information, Better Louisiana

P.O. Box 94397 Baton Rouge, LA 70804-9397

(225) 339-3800

This material was printed at a total cost of $***.**
for 1,000 copies in accordance with R.S. 43:31.

Laws and Best Practices for Quasi-Public Entities

Center for Local Government Excellence
Louisiana Legislative Auditor

Quasi-Public Reporting

The **Louisiana Audit Law** is based in the **Louisiana Constitution**, and the Legislative Auditor is charged by the **Constitution** with *"...auditing fiscal records of the state, its agencies, and political subdivisions."*

Per **R.S. 24:513**, the duties and responsibilities of the auditor and any public entity that receives local or state assistance are defined and enumerated.

Quasi-publics are discussed in the **Audit Law** within **R.S. 24:513**. If a quasi-public meets the definition detailed in **R.S. 24:513** then from the first public dollar tendered, the quasi-public is subject to the **Audit Law**.

The manner in which quasi-publics are audited is determined by the amount of public funds received by the quasi-public. The quasi-public is, therefore, not a vendor who sells services to other public entities, but is rather an agent of public entities. In other words, the quasi-public stands in the shoes of public entities, performing governmental functions. The quasi-public, therefore, must report in detail on the public funds it receives and how those funds are expended. ***If public funds are commingled with private funds, a quasi-public must report all funds it receives.***

Financial Statements

Financial statements provide an overview of what has happened in an organization. It is a picture of the past that should be used to make decisions about the future. Each area of the **financial statements** offers a differing perspective on the information and should be reviewed on a regular basis, no less than monthly.

The quasi-public entity's governing board should receive timely and accurate financial statements with budget to actual comparisons.

Without accurate **financial statements**, the governing board will not be able to make meaningful decisions. Depending upon how the quasi-public entity is created, it may be subject to the **Local Government Budget Act, R.S. 39:1301, *et. seq.***

Internal Controls

The overall purpose of **internal control** is to help an agency achieve its mission and accomplish certain goals and objectives. An effective **internal control** system helps an agency to:

- promote orderly, economical, efficient, and effective operations;
- produce quality products and services consistent with the agency's mission;
- safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud;
- promote adherence to statutes, regulations, bulletins, and procedures; and
- develop and maintain reliable financial and management data and accurately report that data in a timely manner.

Simply put, **Internal Control** is what an agency does to see that the things it wants to happen will happen.

Internal control is people-dependent; it is developed by people, it guides people, it provides people with a means of accountability, and people carry it out. While it is management's responsibility to establish good controls, everyone in a department has responsibility for ensuring the system of **internal control** is effective.

Internal controls are the structure, policies, and procedures used to ensure that management accomplishes its objectives and meets its responsibilities.

An agency can **improve internal** control as follows:

- Critical duties must be segregated. No one person should have complete control over all aspects of any financial transaction.
- Ensure records are routinely reviewed and reconciled by someone other than the preparer.
- Ensure that cash, equipment, inventories, and other property are secured physically, counted periodically, and compared to control records; limit access only to authorized persons.
- Provide employees with the appropriate training, direction, and supervision to ensure they have the necessary knowledge and skills to carry out their duties.

Source: *http://finance.vermont.gov/faq/ic_faq*

Board of Directors' Responsibility

The quasi-public entity's board of directors (board) demonstrates independence from management.

In addition, the board, with management must establish an internal control system that insures reliable financial reporting.

The board is responsible for:

- **Establishing Oversight Responsibilities** – The board is responsible for establishing the roles, responsibilities, and relegation of authority of the board of directors and identifying and accepting its oversight responsibilities in relation to these established requirements and expectations. The board is also responsible for establishing policies and practices for meetings between the board of directors and management.
- **Applying Relevant Expertise** – The board defines, maintains, and periodically evaluates the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions. The board is responsible for identifying and reviewing board's candidates and members should participate in training as appropriate to keep their skills and expertise current and relevant.
- **Operating Independently** – The board should have sufficient members who are independent from management and objective in evaluations and decision making. The board should review management's assertions and judgements and obtain an external review (audit).
- **Providing Oversight for the System of Internal Control** – The board retains oversight responsibility for management's design, implementation, and conduct of internal control.

Fraud

Annual audits of quasi-public agencies indicate that many have not implemented policies and procedures to ensure separate accounting of public funds. Commingling of funds (public and private), failure to comply with the **Audit Law**, and deficient annual audits have led **LLA Investigative Audit** staff to review the operations of several quasi-public agencies in Louisiana.

Investigative audits of quasi-public agencies have resulted in numerous findings including ***Public Funds Used for Personal Purposes, Prohibited Transactions, Reimbursements Received for Expenses Not Incurred, Improper and Undocumented Expenses, and Prohibited Contractual Arrangements***.

Common conditions that allow these issues to occur without detection include:

- public funds commingled with private funds;
- lack of separate accounting for public funds;
- management dominated by one or two key individuals;
- little or no oversight/participation by the board of directors;
- lack of written policies and procedures;
- lack of segregation of duties for accounting functions;
- lack of documentation to support financial transactions; or
- failure to pay state and federal payroll taxes.

In some instances, quasi-public agencies where these conditions occurred have ***lost their public funding, have been subject to further investigation by law enforcement, or have had employees indicted and/or convicted of criminal charges***. However, in every one of these cases, the quasi-public agency lost the public's trust.

Tax Issues

IRS Form 990

The **Form 990**, once filed, is a public document, and due care should be given in the preparation of this form. **Form 990s** which are not complete, inaccurate, or inconsistent may give readers (possible donors, oversight organization, and perhaps the media) an inaccurate portrait of the agency and may be viewed by the **IRS** as incomplete and therefore subject to ***late filing and other penalties***. For more detailed instructions, please visit *www.irs.gov*.

Some common errors found in the preparation of **Form 990** include:

- failure to count uncompensated board members as volunteers on page 1, part I;
- nonapplicable questions are marked as "no" rather than left blank;
- business and family relationships are often not disclosed, as required;
- not all areas associated with outsourced management duties are completed beyond the "yes" answer to the question of the use of outsourced management on the form;
- an incorrect charity type is selected, leaving out the required disclosures which accompany each type; or
- organization not fully disclosing interested-party transaction.

Source: *http://www.bkd.com/articles/2014/common-errors-on-form-990-filings.htm*

Payroll Taxes and Not-for-Profits

Not-for-profit entities are responsible for remitting payroll taxes to the federal government, anywhere from a daily to a quarterly basis. The specific due date for an organization is based upon the timeliness of past payments and the total amount due. For more detailed instructions, please visit *www.irs.gov*.

Typically, the people involved with the incorporation of a not-for-profit are shielded from the personal liabilities associated with corporation debts. However, one of the few exceptions to this is debt incurred due to the not-for-profit's failure to remit payroll taxes. ***Officers, directors, and board members, whether paid or volunteer, can all be held personally liable for the payment of past due taxes, as well as the large penalties associated with those past due amounts, even if they had no knowledge of the taxes being unpaid.*** As such, as an officer, director, or board member of any not-for-profit, the verification of timely payroll tax payments should be a priority.