

### Webinar Control Panel

The screenshot shows a software window titled "GoToWebinar" with a menu bar (File, View, Help). Below the menu is an "Audio" section with "Audio Mode" options: "Use Telephone" (selected) and "Use Mic & Speakers". It displays "Dial: +1 (314) 627-1519", "Access Code: 254-365-834", and "Audio PIN: 31". A note says "If you're already on the call, press #31# now." Below this is a "Questions" section with a text input field and a "Send" button. A callout points to the microphone icon with the text "Raise your hand to ask a question. Only enabled if you have entered your Audio Pin!". Another callout points to the "Audio PIN" field with "Enter Your Audio Pin". A third callout points to the "Send" button with "Enter questions & comments here". The bottom of the window says "TEST WEBINAR Webinar © 527-858-852 GoToWebinar™".

---

---

---

---

---

---

---

---

---

---

**CAPLAW**  
Community Action Program Legal Services, Inc.

**FINANCIAL NETWORK**  
Connecting fiscal professionals on the issues affecting CAAs

## Dealing with Audit Findings

*August 3, 2011*

**Facilitator:**  
*Kay Sohl, Kay Sohl Consulting*

**Panelists:**  
*Mary Pockl and Mike Zeno, CPAs*  
*S.R. Snodgrass A.C.*

© 2011 Community Action Program Legal Services, Inc.

---

---

---

---

---

---

---

---

---

---

## Mary Pockl & Mike Zeno

- **Mary Pockl, CPA**, **Senior Vice President, Not-for-Profit and Financial Institutions at S.R. Snodgrass A.C.**, has provided audit and consulting services for over 16 years, focusing primarily on A-133 audits. Prior to joining Snodgrass, Mary was the fiscal director for a five-county Area Agency on Aging and the accountant for a three-county regional council of government in the state of West Virginia.
- **Mike Zeno, CPA**, is a **Principal at Snodgrass for Not-for-Profit organizations, financial institutions, and small business**. In addition to his service as Chairman of the firm's Accounting and Auditing Committee, he has served two terms as the Chairman of the Audit and Accounting Standards Committee for a national association of CPA firms. He provides a variety of services to financial institutions, not-for-profit organizations, and local government entities, as well as small to mid-sized businesses

© 2011 Community Action Program Legal Services, Inc.

---

---

---

---

---

---

---

---

---

---

### Call Goals

- Discussion among CAA leaders
- Opportunity to talk through questions & challenges with experienced auditors

---

---

---

---

---

---

---

---

### Call Topics

- Context for A-133 audits
- A-133 reporting requirements
- Management's response to findings
- Funder response to findings
- When good minds disagree – auditor and auditee communication strategies

---

---

---

---

---

---

---

---

### *Context:*

### **Purpose of Independent Audit**

Obtain auditor's opinion about whether the entity's financial statements fairly present the financial position and results of activities in accord with standards of US GAAP

---

---

---

---

---

---

---

---

*Context:*  
**Independent Audit Basics**

- Board **engages CPA** to conduct independent audit
- Management responsible for **preparing accurate financial statements**
- Auditor responsible for **opinion** on extent to which readers can rely on the statements

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 7

---

---

---

---

---

---

---

---

*Context:*  
**GAAS**

- Generally Accepted Audit Standards
- Developed by **AICPA**
- Published in **Statements on Auditing Standards (SAS)**
- Significant changes since 2006

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 8

---

---

---

---

---

---

---

---

*Context:*  
**A-133 Audits**

- Required when combined federal expenditures of **\$500,000 or more** within the organization's fiscal year
- Described in Office of Management & Budget **Circular A-133 & Compliance Supplements**
- **Include** all standard independent audit procedures and reports
- Require **additional testing** and **reporting** on compliance with federal funds requirements

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 9

---

---

---

---

---

---

---

---

*Context:*  
**A-133 Requires Use of GAGAS**

- Generally Accepted Government Auditing Standards <http://www.gao.gov/govaud/ybk01.htm>
- Developed by GAO
- Include requirements for auditor qualifications
- Includes testing and reporting beyond that required by GAAS

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 10

---

---

---

---

---

---

---

---

*Context:*  
**A-133 Requires Auditors to:**

- Identify major federal programs
- Understand compliance requirements for major federal programs
- Identify risks of non-compliance
- Tailor audit procedures & tests to address the level of risk
- Test controls to determine compliance

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 11

---

---

---

---

---

---

---

---

*Context:*  
**A-133 Audit Report Must Include**

- Standard audit opinion letter
- Auditor's opinion on compliance with requirements of major federal programs
- Description of findings on controls, compliance and questioned costs

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 12

---

---

---

---

---

---

---

---

*Context:*

**Management Responsibilities**

- Develop & maintain effective **controls**
- Identify & meet **compliance requirements**
- **Prepare** comprehensive **financial statements** & **Schedule of Expenditures of Federal Awards (SEFA)**

CAPLAW © 2011 Community Action Program Legal Services, Inc. 13

---

---

---

---

---

---

---

---

*Context:*

**More Management Responsibilities**

- **Select** a qualified firm to conduct the A-133 audit
- Address **prior audit findings**
- Respond to **current audit findings**
- Ensure **timely submission** of audit report

CAPLAW © 2011 Community Action Program Legal Services, Inc. 14

---

---

---

---

---

---

---

---

**Both GAAS and A-133 require the Auditor to understand, evaluate, and test Internal Controls**

CAPLAW © 2011 Community Action Program Legal Services, Inc. 15

---

---

---

---

---

---

---

---

### Internal Control Standards

- Both A-133 and standard audits rely on COSO
- COSO – Committee of Sponsoring Organizations created framework for establishing and evaluating internal controls
- [www.coso.org/IC](http://www.coso.org/IC)

---

---

---

---

---

---

---

---

### Auditors Required to:

- Understand control environment
- Perform rigorous analysis of risks and design audit procedures to test for significant risks
- Must test of controls even when design of controls is deemed inadequate

---

---

---

---

---

---

---

---

### Key ??? For Auditors

- Are the controls as designed adequate to address risks?
- Are controls working as designed?
- How likely is it that the controls have failed?
  - To deter and or detect error or improper action
  - To result in correction of error
- How significant would the consequences be if the controls failed?

---

---

---

---

---

---

---

---

## Auditor Conclusions

- Consider **adequacy** of **control design**
- Analyze results of testing to determine **effectiveness of controls**
- Determine the **significance** of control problems
- **Communicate control conclusions**

---

---

---

---

---

---

---

---

## 3 Auditor Reports

- Report on Financial Statement and Supplementary Information ...(**opinion letter**)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards ...(**Yellow Book report**)
- Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

---

---

---

---

---

---

---

---

## Significant Deficiencies

- Exists when **design** or **operation** of a **control** does not allow management or staff to **prevent** or **detect misstatements** on a timely basis

---

---

---

---

---

---

---

---

### Significant Deficiencies

- Inability to prepare F/S
- Inadequate segregation of duties
- No Safeguarding of assets
- Receives significant accounting services
- Lack of timely reconciliations
- Lack of expertise in accounting principles
- Employee fraud
- Qualification & training of staff
- No monitoring of controls

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 22

---

---

---

---

---

---

---

---

### Material Weaknesses

- A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 23

---

---

---

---

---

---

---

---

### Material Weaknesses

- Significant audit adjustments
- Not correcting internal control deficiencies
- Fraud by management
- Regulatory non-compliance
- Bias in accounting estimates
- Restatement of financial statements
- Deficiencies in IT controls
- Ineffective oversight of financial reporting

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 24

---

---

---

---

---

---

---

---



### Common A-133 Findings

- Improper allocation of costs to federal awards
- Inadequate time and effort documentation
- Inadequate Sub-recipient monitoring
- Procurement problems
- Failure to meet Cash Management requirements

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 25

---

---

---

---

---

---

---

---

### More A-133 Findings

- Inadequate capacity to prepare complete financial statements
- Inadequate separation of duties

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 26

---

---

---

---

---

---

---

---

### Management's Response?



CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 27

---

---

---

---

---

---

---

---

## Management Response Strategies

- Realistic in relation to magnitude & resources
- Clear assignment of responsibility
- Timeline for implementation
- Transition plan
- Monitoring plan

CAPLAW

© 2011 Community Action Program Legal Services, Inc.

28

---

---

---

---

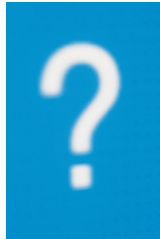
---

---

---

---

## Funders' Response to Findings



CAPLAW

© 2011 Community Action Program Legal Services, Inc.

29

---

---

---

---

---

---

---

---

## Funder Responses

- Offer technical assistance
- Schedule additional monitoring
- Schedule additional monitoring
- Place in high risk classification
- Limit access to funding advances
- Disqualify for future funding
- Attempt to terminate current agreement

CAPLAW

© 2011 Community Action Program Legal Services, Inc.

30

---

---

---

---

---

---

---

---

### When Good Minds Disagree



CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 31

---

---

---

---

---

---

---

---

### Next Steps

- Review prior findings and responses
- Identify risks for findings & questioned costs
- Prepare Board, funders, & staff for anticipated findings
- Communicate response plans

CAPLAW  
© 2011 Community Action Program Legal Services, Inc. 32

---

---

---

---

---

---

---

---