

Centralized Audit Report Review

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Objectives

- Overview of the centralized audit report review process
 - Roles & Responsibilities
 - Audit Report Review Manual
- Audit Report Review Management System (ARRMS)
- Audit Requirements
- Audit Certification
- Consolidated Year-End Financial Report (CYEFR)
- Audit Report Packet Requirements and Submission
- State Data Collection Form
- Audit Report Review
- Corrective Action
- Cooperative Audit Resolution (CART)
- Audit Committee
- Management Decision Letter
- Implementation – Next Steps

Centralize Audit Report Review Process – Objectives

- Remove duplication by awarding agencies and grantees that receive grants from multiple agencies
- Use state agency collaboration to accept corrective action plans (CAP) for audit findings
- Reduce grantee CAP rewrites when multiple agencies must accept the plan
- Ensure audits are conducted in accordance with respective auditing standards, allowing awarding agencies to place greater reliance on the audit results as part of overall monitoring requirements
- Provide technical assistance on audit requirements, interpretation of audit results and proper corrective action to avoid repeat audit findings
- Take proper action when a substandard audit has been conducted
- Automate the Audit Report Review process

Roles & Responsibilities - Grantee

- Procure audit services in accordance with 2 CFR 200.509
- Prepare Financial Statements
- Complete Audit Certification within 60 days of grantee's fiscal year end
- Complete the CYEFR
- Have the proper audit conducted
- Upload the complete audit packet based on audit type
- Complete the State Data Collection Form
- Participate in the CART
- Request technical assistance and the CART process when necessary
- Implement corrective action plans in a timely manner

Roles & Responsibilities – State Grantmaking Agency

- Assign audit report liaison as a single point of contact for the audit report review process
- Assign at least one audit report review subject matter expert for fiscal and administrative findings
- Assign at least one audit report review subject matter expert for programmatic findings
- Ensure audits are completed and reports are received on time and in accordance with federal requirements and GATA
 - Primary responsibility - cog agency; all agencies have responsibility
- Reconcile CYEFR expenditures to state agency records
- Approve CAPs for findings directly related to the agency's grants and cross-cutting findings

Roles & Responsibilities – State Grantmaking Agency (cont.)

- Request CART assistance for repeat findings of subawards
- Participate in CART for approval of CAPs for cross-cutting and/or complex findings
- Collect questioned costs
- Follow-up on audit findings to ensure that grantee takes appropriate and timely corrective action
- Provide technical assistance to auditees and auditors in programmatic areas as requested
- Request technical assistance from GATU for fiscal and administrative requirements as stated in 2 CFR 200

Roles & Responsibilities – State Cognizant Agency

- Ensure audits are completed and reports are received in a timely manner following federal Uniform Guidance Subpart F
 - Primary responsibility - cog agency, all agencies have responsibility
- Upload grantee Single Audit packets to ARRMS from FAC
- Initiate Stop Payment Status if grantee has not submitted an audit report
- Review overall CYEFR reconciliation and flag when Audit Committee assistance is necessary
- Review overall CAP acceptance and identify if CART is required
- Issuance of the Management Decision Letter

Roles & Responsibilities – Contractor

- Review audit report packet submission for completeness
 - Identify missing items
- Review audit report for compliance with applicable auditing standards
- Review CYEFR ‘In Relation To’ opinion
- Ensure CYEFR in audit matches CYEFR submitted in Grantee Portal
- Provide details for financial statement findings
- Issue Pass, Pass with Deficiencies or Fail determination on audit report compliance with applicable auditing standards
- Perform workpaper quality control reviews as directed by the Audit Committee

Roles & Responsibilities – GATU

- Design, implement and maintain the Audit Report Review Management system (ARRMS)
- Provide Grantee Portal notifications regarding audit requirements, due dates, submission requirements and reminders
- Provide state agency notifications regarding grantee submissions and FAC submissions (cog agency)
- Monitor awarding agencies' system responses to corrective action
- Administer the CART process
- Administer the Audit Committee
- Record results from the CART process and the Audit Committee in ARRMS
- Provide technical assistance throughout the audit report review process as necessary

Roles & Responsibilities – CART

- Attend scheduled meetings to discuss the applicable CAPs
- Reach agreement on an acceptable CAP to be implemented by the grantee
- Assist grantees with repeat audit findings
- Draft a CART Agreement for all parties to sign
- Request technical assistance from GATU or the Audit Committee

Roles & Responsibilities – Audit Committee

- Determine appropriate action on substandard audit reports
- Provide technical assistance to CART and GATU
- Follow-up to determine appropriate action on the results of Workpaper Quality Control Reviews

Audit Report Review Process Manual

- GATU, with the assistance of the Audit Workgroup, has drafted a manual detailing:
 - Audit report review process,
 - Audit requirements,
 - Roles and responsibilities, and
 - Step-by-step instructions
- Training on the Audit Report Review Process Manual will be provided for state agency and grantees

Audit Report Review Management System (ARRMS)

- ARRMS is the internal audit report review system and works with the Grantee Portal
- Based on award data in the CSFA, ARRMS provides:
 - Grantee notification of audit requirements
 - Grantee notification of audit due date
 - Late notifications to grantees
- State grantmaking agencies will be required to accept or reject grantee CAP for each finding and provide expenditure reconciliation details in ARRMS
- GATU will monitor ARRMS responses to ensure timely issuance of the Management Decision Letter
- CART and Audit Committee activity will be documented in ARRMS

Audit Requirements

- 2 CFR 200.101 – Applicability
 - ALL grants are subject to Subpart F - Audit Requirements
- Grantee must procure or otherwise arrange for the audit per 2 CFR 200.509 *Auditor Selection*
- Single Audit - grantees expending \$750,000 or more in federal awards (federal pass-through and direct federal funds) must have an audit conducted in accordance with 2 CFR 200.514 or 507
 - For-profit grantees are required to have a Program Audit conducted in accordance with 2 CFR 200.507

Audit Requirements – GAGAS and GAAS

- Generally Accepted Government Audit Standards (GAGAS) Audit
 - Required of grantees, including for-profits, not subject to a single audit that expend \$300,000 or more in state, direct federal and/or federal pass-through funds
- Generally Accepted Auditing Standards (GAAS) Audit
 - Required of grantees, including for-profits, not subject to either a single audit or a GAGAS audit but have TOTAL revenues in excess of \$300,000
- If an audit is required by any regulatory authority it must be submitted
 - Publicly traded for-profit companies must comply with the audit requirements of the Public Company Accounting Oversight Board (PCAOB) and their auditing standards

Audit Certification

- Grantee receives 'Audit Due' notification through the Grantee Portal
- Notification contains audit requirements and due dates
- Grantee completes Audit Certification form through the Grantee Portal
 - Certifies type of audit to be conducted for their organization
 - Audit type determined by the source and amount of grant funding expended by the grantee
 - Once submitted, automated notifications of audit requirements and due dates are generated through the Grantee Portal
 - Audit Certification is due 60 days after the grantee's fiscal year-end
- Audit Certification is required to submit the audit report packet

Consolidated Year-End Financial Report (CYEFR)

- Consolidated Year-End Financial Report (CYEFR) is a key piece to the audit report package
- All grantees must complete a CYEFR
 - Grantees subject to the Single Audit
 - Grantees who do not meet the thresholds to require an audit
- CYEFR objectives
 - Assist the grantee in making reconciliations from periodic reporting and year end (including adjustments from the audit process)
 - Must tie to expenditures reported in the audited financial statements
 - Assist state agencies in reconciling reported expenditures to state agency records

CYEFR – Grantee

- Grantee expenditures are categorized as State Grant Funding, Other Grant Programs and Activities, and All Other Costs Not Allocated
 - State grant expenditures must be classified by state awarding agency, CSFA number, and identified as state funding or federal pass-through funding
 - Expenditures for Other Grant Programs and Activities are identified as federal funding or other funding
 - Expenditures for All Other Costs Not Allocated are identified as other funding
- CYEFR requires an ‘In Relation To’ opinion to the grantee’s audited financial statements
- CYEFR has been automated and is completed through the Grantee Portal
- Errors discovered in CYEFR reporting could result in:
 - Correction of the errors and resubmission of the CYEFR
 - Requiring a new ‘In Relation To’ opinion or
 - The need for the correct audit to be conducted; examples would include:
 - Federal grant expenditures exceed \$750,000 but a Single Audit was not conducted
 - State and Federal grant expenditures exceed \$300,000 but a GAGAS Audit was not conducted

CYEFR – State Agency

- Grantee submits the CYEFR through the Grantee Portal
- State agencies reconcile reported expenditures by CSFA program to the state agency's records
- Each state agency reports expenditures per the state agency's records in the ARRMS

CYEFR – State Cognizant Agency

- Cog agency must ensure all state grantmaking agencies complete the CYEFR reconciliation and record any differences in the ARRMS
- If differences are identified and
 - the sum of errors does not affect audit type, each awarding agency must communicate with their grantee to determine the cause of any differences; or
 - if the sum of errors does affect the audit type, the cog agency must notify GATU and the Audit Committee
 - GATU and the Audit Committee will determine the appropriate resolution

Audit Report Submission

- Using the Grantee Portal, the Grantee will submit the Audit Report Packet
- Single Audit Packet Submission:
 - Grantee uploads the Federal Single Audit Reporting Packet to the Federal Audit Clearinghouse (FAC)
 - Due date for a Single Audit upload - 30 days after audit is complete, but no later than 9 months after the grantee's fiscal year end
 - Once FAC accepts, the state cog agency downloads the Single Audit Reporting Packet from the FAC and uploads into ARRMS
 - Grantee uploads a copy of the Peer and External Quality Control Reviews of the Audit Firm using the Grantee Portal

Audit Report Submission (cont.)

- Financial Audit Packet Submission (GAGAS & GAAS)
 - Grantee uploads the Financial Statement Audit Reporting Packet, including the Peer and External Quality Control Reviews of the Audit Firm, using the Grantee Portal
 - Due date for a Financial Statement Audit - 30 days after audit is complete, but no later than 6 months after the grantee's fiscal year end
- Due date notifications are sent to grantee through the Grantee Portal
- Extensions for completion of an audit will not be granted
- Grantee will have a 15 day grace period to submit
 - State cognizant agency utilize the Stop Payment Status if submittal is late

Audit Reporting Packet Requirements

- Single Audit/Program Audit – 2 CFR 200.512(c)
 - Financial Statements – 2 CFR 200.510(a)
 - Schedule of Expenditures of Federal Awards – 2 CFR 200.510(b)
 - Summary Schedule of Prior Audit Findings – 2 CFR 200.511(b)
 - Auditor's Report – 2 CFR 200.515
 - Corrective Action Plan – 2 CFR 200.511(c)
 - Management Letters issued by auditors - AU325
 - CYEFR – with 'In Relation To' Opinion
 - Peer and External Quality Control Reviews of the Audit Firm

Audit Reporting Packet Requirements (cont.)

- GAGAS Audit
 - Financial Statements – 2 CFR 200.510(a)
 - Summary Schedule of Prior Audit Findings – 2 CFR 200.511(b)
 - Auditor's Report
 - Corrective Action Plan
 - Management Letters issued by auditors - AU325
 - CYEFR – with 'In Relation To' Opinion
 - Peer and External Quality Control Reviews of the Audit Firm

Audit Reporting Packet Requirements (cont.)

- GAAS Audit
 - Financial Statements - 2 CFR 200.510(a)
 - Summary Schedule of Prior Audit Findings – 2 CFR 200.511(b)
 - Auditor's Report
 - Corrective Action Plan
 - Management Letters issued by auditors - AU325
 - CYEFR – with 'In Relation To' Opinion
 - Peer and External Quality Control Reviews of the Audit Firm

Audit Reporting Packet Requirements (cont.)

- No Audit Required
 - CYEFR must be submitted through the Grantee Portal no later than 6 months after the auditee's fiscal year end

State Data Collection Form

- Mirrors the FAC Data Collection Form
- For Single Audits, the form is prepopulated with data from the FAC
- For Financial Statement Audits, the grantee will complete the automated form through the Grantee Portal

Review of the Audit Report

- Uniform Guidance requires a pass-through entity
 - Follow-up and ensure the subrecipient takes timely and appropriate action on all deficiencies pertaining to the award to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means
 - Issue a management decision for audit findings pertaining to the award provided to the subrecipient from the pass-through entity as required by 2 CFR 200.521 Management decision
 - Verify that every subrecipient is audited as required by Subpart F – Audit Requirements when it is expected that the subrecipient’s awards expended during the respective fiscal year equaled or exceeded the threshold set forth in 2 CFR 200.501 Audit requirements

Review of the Audit Report (cont.)

- Audit Report Review Contractor (Contractor) is notified when grantee completes audit report submission through the Grantee Portal
- Contractor reviews the financial audit report packet within 14 calendar days to ensure a complete submission
- If the financial statement audit report packet is determined to be incomplete:
 - Contractor will identify missing items
 - Grantee has 7 days to re-submit audit certification, CYEFR, audit packet and state data collection form

Review of the Audit Report (cont.)

- For a Single Audit report packet, FAC acceptance indicates a complete submission
 - Contractor will review to ensure all required documentation has been submitted
 - Contractor will identify missing items
 - Grantee has 7 days to re-submit audit certification, CYEFR, audit packet and state data collection form
- Grantee will have 2 attempts to re-submit audit information
 - If Contractor determines audit report packet is incomplete, state cog agency will be notified and will utilize Stop Payment Status
- When the audit report packet is complete
 - Grantee will be notified of successful submission
 - Contractor will review the audit report
 - State grantmaking agencies will begin their reconciliation of the CYEFR

Review of the Audit Report (cont.)

- Contractor review of the audit report will include:
 - Determination if the audit report meets applicable auditing and reporting standards
 - Ensuring CYEFR 'In Relation To' opinion has been issued; ensuring that the audit report CYEFR matches the CYEFR submitted in the Grantee Portal
 - Providing finding information for financial audit findings
 - Issuance of a Pass, Pass with Deficiencies or Fail determination
- Contractor will complete this review within 60 days of receiving a complete audit report packet

Review of the Audit Report (cont.)

- Action will be taken based on the Contractor's determination
 - Pass – a notification will be sent to the state cog agency indicating the Audit Report Review is complete
 - Pass with Deficiencies or Fail – a notification will be sent to the Audit Committee to determine necessary follow up action
- State grantmaking agencies will begin review and acceptance of the corrective plan for audit findings affecting their programs and for cross-cutting findings

Corrective Action Plan (CAP) – Grantee

- After the audit, the grantee must prepare, in a document separate from the auditor's findings described in 2 CFR 200.516 *Audit findings*, a CAP to address each audit finding in the current year auditor's reports
- The CAP must provide
 - Name(s) of the contact person(s) responsible for corrective action
 - Corrective action planned
 - Anticipated completion date
 - If the grantee does not agree with the audit findings or believes corrective action is not required, the CAP must include an explanation and specific reasons

Corrective Action Plan (CAP) – State Agency

- Each state agency must review and determine the adequacy of the CAP for findings that affect their agency's programs
 - Includes cross-cutting findings for general administrative requirements that would affect all funding agencies and their programs
- Each state agency will use ARRMS to record their acceptance of the grantee's CAP
- If all agencies do not accept the grantee's CAP, GATU, upon cog agency notification, will facilitate the CART process to ensure a cooperative resolution

Corrective Action Plan (CAP) – State Cognizant Agency

- Ensure all awarding agencies have
 - Accepted the CAP applicable to their grant program(s), and
 - Accepted the CAP for cross-cutting findings
- If all agencies do not accept the grantee's CAP for a finding, GATU, upon notification from the cog agency, will facilitate the CART process to ensure a cooperative resolution

Cooperative Audit Resolution Team (CART)

- CART's purpose is to improve program results through cooperative audit resolution and oversight processes that result in:
 - Maximizing dialogue and cooperation between grantors and grantees;
 - Addressing the root causes of audit findings;
 - Fostering continuous improvement in program compliance, auditing, monitoring and technical assistance processes;
 - Identifying red flags indicating possible fraud, waste, abuse or mismanagement of grant funds (including notification of proper authorities); and
 - Increasing efficiency and cost savings

Cooperative Audit Resolution Team (CART)

- CART process is a practical approach to problem-solving which embraces the GATA objective - if grantees and subrecipients are not successful in carrying out the grant programs, Illinois is not successful
- CART process can be used for any type of audit finding and can be voluntary or involuntary
 - Voluntary - requested by the grantee
 - Involuntary – requested by the state grantmaking agency, state cog agency or GATU
- CART members will be representatives from the grantee organization, state awarding agencies and GATU

Cooperative Audit Resolution Team (CART)

- CART will address disagreements on the acceptance of a grantee's CAP by providing a multi-disciplinary team of stakeholders the opportunity to openly discuss the root cause of the finding and agree on effective corrective action
- CART members will
 - Attend scheduled meetings to discuss applicable CAP(s)
 - Reach agreement on an acceptable CAP to be implemented by the grantee
 - Assist grantees with repeat audit findings
 - Draft a CART Agreement for all parties to sign
 - Request technical assistance from GATU or the Audit Committee

CART – Grantee

- Request CART assistance for findings on grants as necessary
- Appropriate grantee staff must participate as members of the CART
- Implement the agreed upon CAP in a timely manner
 - If the CAP cannot be implemented as agreed, the grantee must notify their State cog agency of the change in CAP

CART – State Grantmaking Agency

- Request CART assistance for findings on subawards as necessary
- Each state grantmaking agency must
 - Identify the appropriate SMEs to participate as CART members
 - Attend scheduled meetings to discuss the applicable CAP(s)

CART – GATU

- GATU will facilitate the CART process including:
 - Scheduling requested meetings for the CART
 - Ensuring the state agency audit report review liaison(s) invites the correct SMEs to participate in the CART meetings
 - Making final decisions on the disposition of findings in situations where there is a disagreement among CART members
 - Documenting the results of the CART process in ARRMS

Audit Committee

- The Audit Committee will determine next steps for audits the Contractor identifies as substandard (Pass with Deficiencies or Fail)
- Next steps will include:
 - Notification of errors
 - The need to reissue an audit report
 - The need to have a different type of audit conducted; or
 - The need for workpaper quality control review
- The Audit Committee will provide technical assistance to CART and GATU as necessary
- The Audit Committee will follow-up to determine the appropriate action needed after a workpaper quality control review

Audit Committee

- GATU will be responsible for administration of the Audit Committee process
- The Audit Committee members must be Illinois licensed certified public accountants (CPA) that have significant experience in the areas of audit and peer review
- Audit Committee members will represent:
 - The Illinois CPA Peer Review committee;
 - Volunteers from CPA firms who specialize in government and nonprofit audits;
 - State grantmaking agency staff who meet membership requirements; and
 - GATU

Management Decision Letter

- Within 180 days of submission of a complete audit report packet (for Single Audit, this is FAC acceptance date, for Financial Statement Audit, this is determined by the Contractor), the state cog agency must provide the grantee with a Management Decision Letter outlining the State's review of the Audit Report and associated CAP (if applicable)
- The Management Decision Letter will be issued through the ARRMS and be available for the grantee in the Grantee Portal

Implementation – Next Steps

- Additional training will be provided to both state agency staff and grantees
- Grantees with fiscal year-end dates of 12/31/17 or later must use the Centralized Audit Report Review process

Questions?

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