

CSBG Monitors' Training

Agenda



- OMB Basics
 - Uniform Administrative Requirements
 - Cost Principles
 - Cost Allocation
 - Audit
- Fraud Concerns
- Fiscal Monitoring and Red Flags
- Audit Essentials

Format



2 CFR Part 200

- Chapter I Office of Management and Budget Governmentwide Guidance for Grants and Agreements
- Chapter II Office of Management and Budget Guidance
 - Part 200 Uniform Administrative Requirements,
 Cost Principles and Audit Requirements for Federal Awards
 - Subpart A Acronyms and Definitions (200.1)
 - Subpart B General Provisions (200.100)
 - Subpart C Pre-Federal Award Requirements and Contents of Federal Awards (200.200)

Format



- Subpart D Post Federal Award Requirements Standards for Financial and Program Management (200.300)
- Subpart E Cost Principles (200.400)
- Subpart F Audit Requirements (200.500)

APPENDICES

- I. Full Text of Notice of Funding Opportunity
- II. Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
- III. Indirect (F&A) Costs Identification and Assignment and Rate Determination for Institutions of Higher Education

Format



- APPENDICES, Continued
 - Indirect (F&A) Costs Identification and Assignment and Rate Determination for Nonprofit Organizations
 - V. State/Local Government and Indian Tribe-wide Central Service Cost Allocation Plans
 - VI. Public Assistance Cost Allocation Plans
 - VII. States and Local Government and Indian Tribe Indirect Cost Proposals
 - VIII. Nonprofit Organizations Exempted From Subpart E - Cost Principles of Part 200
 - IX. Hospital Cost Principles
 - X. Data Collection Form
 - XI. Compliance Supplement



UNIFORM ADMINISTRATIVE REQUIREMENTS

Federal Government (Awarding Agencies)

State Government (Pass-through Entities)

CAPs, Tribes,

•••

Sub-recipients (Delegates)

Subpart B – General Provisions



- Purpose
 - To establish uniform cost principles and audit requirements
- Statutes govern, where conflict exists
- Applies to all non-Federal recipients
 - Direct recipients
 - Sub-recipients of a pass-through entity

Subpart C Pre-award Requi

Pre-award Requirements



- Type of Agreement:
 - Contract
 - Grant
 - Cooperative Agreement
 - Fixed Amount Award
- Requirements for awards:
 - CFDA number
 - How awarded
 - Eligibility requirements
 - Selection criteria, if discretionary

Subpart C – Pre-award Requirements



- Awarding agency must design and execute a merit review process for applications
 - Unless prohibited by Federal Statute
- Must evaluate risk to the program posed by each applicant
 - Financial stability
 - Quality of management systems
 - Ability to meet the management standards
 - History of performance
 - Reports and findings from single audits

Subpart C – Pre-award Requirements



- When awarding agency review of risk posed by applicant or recipient history indicates potential failure to comply with performance goals:
 - Payments as reimbursements, rather than advances
 - Withholding authority to proceed to next phase
 - More detailed financial reports
 - Additional project monitoring
 - Receipt of technical assistance
 - Establishing additional prior approvals

Subpart D – Post Award Requirements



- States must follow state law
- Financial management system must provide:
 - Identification, in its accounts, of all Federal awards received and expended (CFDA title & number, etc.)
 - Accurate, current and complete disclosure of financial results for each award
 - Source and application of funds
 - Effective control over all funds, property and other assets (safeguarding of assets)
 - Comparison of expenditures with budget
 - Written procedures on payments
 - Written procedures for determining allowability of costs

Subpart D – Post Award Requirements



- Internal Controls
 - Establish and maintain effective internal control over Federal awards
 - In compliance with:
 - "Standards for Internal Control in the Federal Government" (Comptroller General of the United States)
 - "Internal Control Integrated Framework" (COSO)
 - Comply with Federal statutes, regulations and the terms and conditions of the awards
 - Evaluate and monitor compliance
 - Take prompt action when instances of noncompliance are identified in audit findings

COSO Framework



Key Concepts:

- Internal control is process
- Internal control is impacted by people, not just policies and manuals
- Internal control provides reasonable assurance, not absolute

Definition

- A process, effected by an entity's board of directors, management and other staff, designed to provided reasonable assurance regarding achievement of objectives:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
 - Safeguarding of assets

Subpart D – Post Award Requirements



- Internal Control Framework
 - Control Environment Organization's culture that influences ethical behavior.
 - Risk Assessment Process of identifying risks that threaten achievement of goals.
 - Control Activities Processes and procedures to support compliance and mitigate risk.
 - Information and Communication Providing right information to the right people at the right time.
 - Monitoring Process to verify that the controls are working as intended.

Green Book



- Same 5 Components
- Adds 17 principles

17 Principles

Figure 3: The Five Components and 17 Principles of Internal Control

Control Environment

- The oversight body and management should demonstrate a commitment to integrity and ethical values.
- The oversight body should oversee the entity's internal control system.
- Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
- Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

- Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

Information and Communication

- Management should use quality information to achieve the entity's objectives.
- Management should internally communicate the necessary quality information to achieve the entity's objectives.
- Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

Subpart D – Post Award Requirements



Payment

- Minimize time elapsing between the transfer of funds from the US Treasury or pass-through entity and the ultimate disbursement
- Non-Federal entity must be paid in advance, provided it maintains written procedures for control and accountability
- Must be allowed to submit requests for funds at least monthly

Subpart D – Post Award Requirements



- Program Income
 - Income generated through program activity
 - Nonprofit may retain
 - Considered non-Federal match
 - No obligation to Federal government for program income earned after end of the project period
 - Use of program income
 - Deduction
 - Addition, when authorized

Subpart D – Property Standards



- Insurance coverage
- Title vests in recipient sort of......
- May use for a fee
- May transfer to other Federal programs
- May trade in or sell and apply to replacement equipment

Subpart D – Property Standards



- Equipment records requirements
 - Description
 - Serial, model number
 - Source, including award number
 - Acquisition date
 - Federal percentage
 - Location and condition
 - Unit acquisition cost
 - Ultimate disposition data

Subpart D – Property Standards



- Physical inventory
 - At least every two years
 - Reconcile records to physical inventory
 - Verify:
 - Existence
 - Utilization
 - Need
- Control system to prevent loss or damage
- Adequate maintenance procedures



- Written procurement procedures
- Written standards of real or apparent conflict of interest
- Must maintain a contract administration system
- Must avoid unnecessary or duplicative acquisitions
- Goal is full and open competition
- Affirmative steps for small, minority and women owned businesses



- Methods of procurement:
 - 1. Micro-purchase
 - \$3,500 or less
 - Distribute equitably among qualified suppliers
 - No solicitation necessary
 - 2. Small purchase
 - \$150,000 or less
 - Simplified Acquisition Threshold
 - Price or rate quotations from an adequate number of qualified sources



- Methods of procurement:
 - 3. Sealed bid
 - Lowest price
 - Publicly advertised and opened
 - 4. Competitive proposal
 - Publicly advertised and opened
 - Written method for conducting technical evaluation
 - Solicited from an adequate number of qualified sources
 - Most advantageous to the program, price and other factors considered



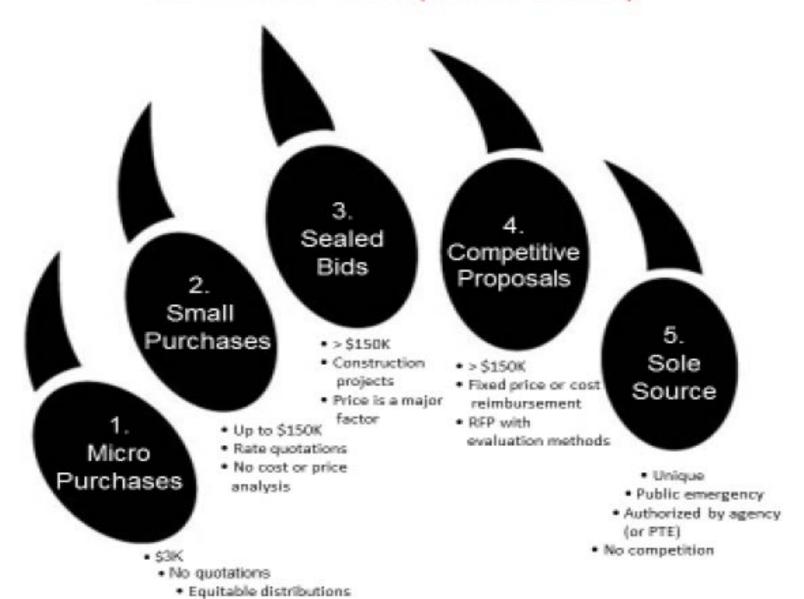
- Methods of procurement:
 - 5. Noncompetitive proposals
 - Single source
 - Emergency requirement
 - Pre-approval

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Procurement "Claw" (Sections 200.317-326)



Procurement "Claw" (Section 200.320)



Subpart D – Performance and Financial Monitoring and Reporting



- Performance reports must be submitted
 - Performance vs. objective
- Pass-through entities must monitor activities of sub-awards:
 - Analyze financial and programmatic reports of sub
 - Ensure subs take timely action on deficiencies
 - Issue management decisions for audit findings
 - Consider whether adjustments are needed on pass through books

Subpart D – Record Retention, Access & Closeout



- 30
- Retain records 3 years from date of submission of the final expenditure report
- All reports due 90 days after end date of performance, unless extended
- All obligations must be liquidated 90 calendar days after the end date of the period of performance

90 Day Rule



 Funds must be <u>obligated</u> by the last day of the grant period.

Obligations must be <u>liquidated</u> within 90 days of the end of the grant period.



Obligation



- Obligation is a transaction that requires payment
- Obligation is not:
 - An encumbrance
 - A commitment
 - A contract
 - A concept
- The funds must be spent in the period to be allowable!



COST PRINCIPLES

Subpart E - Cost Principles



- Total Federal Cost = Allowable Direct + Allocable Indirect - Credits
- Elements of costs
 - Be necessary and reasonable
 - Conform to any limitations
 - Be consistent with policies and procedures to other activities of organization
 - Be accorded consistent treatment
 - Be determined in accordance with GAAP
 - Not included as cost of another award
 - Be adequately documented

Subpart E - Cost Principles



- Indirect (F & A) Costs
 - Indirect costs are those incurred for a common or joint purpose benefitting more than one cost objective
 - May be necessary to establish a number of pools of indirect costs
 - "Major" nonprofit organizations (receive more \$10 million in direct Federal funding) must have at least 2 categories:
 - Facilities depreciation, interest, operation & maintenance
 - Administration director's office, accounting, personnel

Subpart E - Cost Principles



- Negotiated Indirect (F & A) Costs
 - Negotiated rates must be accepted by all Federal agencies
 - Any entity that has never received a negotiated indirect cost rate may elect a de minimis indirect cost rate of 10% of modified total direct costs (MTDC)
 - May be utilized indefinitely
 - If chosen, this methodology once elected must be used consistently for all Federal awards until such time as it chooses to negotiate for a rate
 - Modified Total Direct Costs (MTDC) All direct wages, fringe benefits, materials and supplies, services, travel and subawards and subcontracts up the first \$25,000 of each. MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarship, and participant support costs

COST ALLOCATION



What is "Cost Allocation"?

- Cost Allocation is a Process to Determine the "Total Cost" of a "Cost Objective"
 - Cost Objective is a particular award, contract, grant, project, service or other activity of an organization for which cost data is desired
- Achieved By Distributing or Apportioning Costs to a Benefiting "Cost Objective"...
- Using Statistical Data or Metrics that Measure the Usage of a Service or the Relative Benefit Received



Total Costs = Direct + Indirect

- Direct costs = identified with a <u>final cost</u> <u>objective</u>
- Indirect costs = incurred for common or joint objectives
 - Cannot be identified with a final cost objective
- Joint costs = benefits more than one program, but not all programs



- STEP 1 Identification of 'pools' (costs with like characteristics)
 - Depreciation
 - Interest
 - Operation and maintenance expenses
 - General administrative:
 - Planning and Executive
 - Human Resources
 - Finance and Accounting
 - Information Technology



Step 2 - Determine allocation bases

Depreciation

Interest

Repairs/Maintenance

Square feet,

of rooms,

FTE employee

General Administrative – Direct labor hours or costs

Step 3 - Prepare Cost Allocation Plan



EXAMPLE COMMUNITY ACTION AGENCY

	PROGRAMS				INDIRECT POOLS	
	A	В	C	Corporate	Facilities	Admin.
Salaries and Wages	\$ 400,000	\$ 200,000	\$ 100,000	\$ 50,000	\$ 25,000	\$ 750,000
Fringe Benefits	120,000	60,000	30,000	15,000	7,500	225,000
Supplies	10,000	8,000	5,000	20,000	2,500	15,000
Communications	5,000	12,000	5,000	15,000	-	10,000
Direct Client Services	65,000	20,000	10,000		-	-
Sub-Total	\$ 600,000	\$ 300,000	\$ 150,000	\$ 100,000	\$ 35,000	\$ 1,000,000

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Cost Allocation

EXAMPLE COMMUNITY ACTION AGENCY

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Allocate Facilites Pool	9,767	4,884	2,442	1,628	_(35,000)	16,279
					\$ -	_

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Cost Allocation



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Direct Client Services	65,000	20,000				
Sub-Total	\$ 600,000	\$ 300,000	\$ 150,000	\$ 100,000	\$ 35,000	\$ 1,000,000
Allocate Facilites Pool	9,767	4,884	2,442	1,628	(35,000)	16,279
Sub-Total	\$ 609,767	\$ 304,884	\$ 152,442	\$ 101,628	\$ -	\$ 1,016,279
Allocate Admin Pool	530,233	265,116	132,558	88,372	-	(1,016,279)
FINAL PROGRAM COST	\$ 1,140,000	\$ 570,000	\$ 285,000	\$ 190,000		\$ (0)



- Types of Indirect Cost Rates:
 - Predetermined
 - not subject to adjustment
 - Fixed Rate
 - a predetermined rate, but the difference between actual and estimate carries forward as an adjustment
 - Provisional
 - temporary indirect rate used during the year until a final rate is established at year end



- Tricks and Traps of cost allocation
 - Cost allocation and indirect costs are <u>not</u> the same thing
 - Costs <u>cannot</u> be allocated on budget!
 - Costs <u>cannot</u> be allocated on available resources!
 - Cost allocation requires a plan <u>and</u> following it.
 - Cost allocation must produce <u>reasonable</u> results.



- Tricks and Traps, Continued
 - Indirect costs can be a home to FRAUD!!
 - Cannot allocate unallowable costs.
 - Allocate indirect costs to ALL functions:
 - –Corporate
 - -Political/Informational
 - -Fund raising
 - -Member services
 - Have an approval process for allocations

Subpart E – Selected Items of Cost



Compensation – Personal Services

- PAR's <u>not</u> required
 - Punishment for not following PARs
- Focus = system, not specific requirements
 - Internal controls are the key
- Reasonable consistent with that paid for similar work
- Consistent must follow organization-wide policies/practices
- Incentive compensation
 - Overall compensation must be reasonable
 - Paid or accrued pursuant to an agreement entered into in good faith <u>before</u> services were rendered

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Subpart E – Selected Items of Cost



Compensation – Personal Services

- Standards for Documentation of Personnel Expenses
 - Must be based on records that accurately reflect the work performed
 - » Must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated
 - » Must be incorporated into the official record of the entity
 - » Reasonably reflect the total activity for which the employee is compensated, not more than 100%
 - » Support the distribution of the employee's salary or wages among specific activities or cost objectives
 - » Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes
 - If all the above are met, nothing additional is required!

Subpart E – Selected Items of Cost



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- Compensation Fringe Benefits
 - Must be reasonable and required by law, entityemployee agreement or an established policy
 - Leaves
 - Under written leave policies
 - Equitably allocated to all related activities
 - Determined by GAAP, when leave is earned
 - Lesser of the amount accrued or funded
 - Insurances and pensions must be granted under a written policy

SINGLE AUDIT



- Required for non-Federal entities that expend \$750,000 or more in Federal awards in a year
- The auditee shall:
 - Prepare appropriate financial statements
 - Procure or otherwise arrange for the audit
 - Follow up and take corrective action on audit findings
- Audit Reporting
 - Opinion on financial statements
 - Report on internal control over financial reporting and on compliance with laws, regs and provisions of awards
 - Report on compliance and internal control over compliance applicable to each major program
 - Schedule of findings and questioned costs
 - Summary of audit results



- Conducting a Single Audit
 - Step 1 Determine Type A programs
 - Generally, \$750,000 or larger
 - Step 2 Determine which Type A are low risk
 - Generally, audited in last 2 years without issue
 - Step 3 Determine which Type B are high risk
 - Auditor's professional judgment
 - Step 4 Determine major programs
 - Type A & B High Risk Programs



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- Conducting a Single Audit
 - Percentage of Coverage Rule
 - If low risk auditee 20% of expenditures
 - If other 40% of expenditures



- Major Program Compliance Elements
 - A. Activities Allowed/Unallowed
 - B. Allowable Costs/Cost Principles (combined)
 - C. Cash Management
 - D. Davis-Bacon
 - E. Eligibility
 - F. Equipment and Real Property Management
 - G. Matching, Level of Effort and Earmarking
 - H. Period of Availability of Federal Funds
 - I. Procurement and Suspension and Debarment
 - J. Program Income
 - K. Real Property Acquisition and Relocation Assistance
 - L. Reporting
 - M. Subrecipient Monitoring
 - N. Special Tests and Provisions



Audit Findings

- Significant deficiencies and material weaknesses in internal control over major programs
- Material noncompliance with the provisions of laws, regulations or terms/conditions of awards over a major
- Known questioned costs that are greater than \$25,000
 - Auditor should project potential error
- Known or likely fraud



- Elements of a finding
 - Federal program and Federal award identification
 - CFDA number and title
 - Criteria upon which the audit finding is based (citation)
 - Condition found (facts that support the deficiency)
 - Statement of effect
 - Identification of questioned cost and how computed
 - Information on prevalence (# of findings from # in universe)
 - Whether a repeat finding from a previous audit
 - Recommendation to prevent future occurrences
 - View of responsible official of the auditee

Finding Example



<u>Finding:</u> ACCOUNT RECONCILIATIONS – ALL PROGRAMS (2009 – 01)

Questioned Costs: None

<u>Condition:</u> Several asset, liability and net asset accounts contain misstated or unidentified balances. These balances were analyzed and adjusted during audit fieldwork.

<u>Criteria:</u> OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Subpart C. 21(b)(1) requires recipients to have a financial management system that provides accurate, current and complete disclosure of the financial results of each program. In addition, subpart C.21(b)(3) requires a financial management system that provides adequate control over all funds, property and other assets.

<u>Effect:</u> Failure to timely reconcile and adjust account balances allows errors to be made and not caught and corrected, thus allowing inaccurate financial statements and assets that are not adequately controlled.

<u>Recommendation:</u> We recommend that monthly reconciliation responsibility for each general ledger account be assigned to an appropriate person. Any unknown or misstated balance should be investigated and corrected as soon as possible.

Responsible Official: Ms. Mary Jane Smith, Finance Director

<u>Auditee Response:</u> Twin Cities Community Action Programs agrees with the auditor's recommendation. A schedule with assigned accounts will be developed within 30 days. The Finance Director will review all accounts 30 days after month end to verify that each account has been appropriately analyzed.

<u>Auditor Assessment:</u> The proposed action by the TCCAP should adequately address this finding.

Resources



- Full text of OMB Uniform Guidance for Federal Financial Assistance
 - http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf
- Compliance Supplement
 - http://www.whitehouse.gov/omb/circular-s/a133_compliance-supplement_2016
- Data Collection Form
 - https://harvester.census.gov/facweb/files/2013 form SF-SAC.pdf

Resources



- "Standards for Internal Control in the Federal Government" (Green Book) issued by the Comptroller General
 - www.gao.gov/special.pubs/ai00021p.pdf
- "Internal Control Framework" issued by the Committee on Sponsoring Organizations (COSO)
 - www.coso.org/ic.htm

Resources



- Example Cost Allocation Plan
 - http://www.michigan.gov/documents/mde/Model Cost Allocation Plan 357993 7.pdf
- Indirect Cost Proposal
 - http://www.muni.org/Departments/budget/indirectCost/2014%20Indirect%20Cost%20Proposals/H HS%20ICP%202014.pdf
 - http://www.epa.gov/ogd/recipient/sample1.htm
 - https://rates.psc.gov/fms/dca/shortform1.pdf
 - https://rates.psc.gov/fms/dca/np exall2.html

Fraud Concerns



- "Two longtime officials of a federally funded Head Start program run by the Roman Catholic Archdiocese of New York siphoned more than \$800,000 from the program,...by burying additional payments to themselves...they nearly tripled their salaries,..." The New York Times, June 2, 2005
- "Head Start director in Maryland...stole \$335,777...South Dakota woman on charges that she embezzled \$185,000..."
 The New York Times, March 18, 2005
- "..mismanaged \$140,000...and collected roughly \$30,000 in bonuses...in violation of employment policies... and not reported to tax authorities." The New York Times, July 1, 2004



- "Undercover investigators trying to enroll a handful of fictitious children in federally funded Head Start child care centers found that in about half of the cases, workers fraudulently misrepresented parents' incomes, addresses and other information to allow kids to qualify for a slot." USA Today, May 19, 2010
- "...director of food services for Open Arms of Minnesota from 2009 to 2012. He allegedly made contractual arrangements for food deliveries with at least four charity organizations and two private individuals, delivered Open Arms' food and kept the money(\$155,000) for himself." Pioneer Press, August 6, 2012



- "Seattle police are investigating allegations that the nonprofit's (Senior Services of Seattle-King County) employee, who was fired in March, created a fake company to bill the agency for moving and hauling services that clients never received. Senior Services estimates that \$89,000 in city money was appropriated." The Seattle Times, September 28, 2012
- "The former executive director of a southwest Florida nonprofit is accused of misappropriating more than \$900,000." CBS, July 24, 2012
- "The former CFO of a Kansas nonprofit was charged Wednesday with stealing more than \$2 million in Medicaid money. Prosecutors said Sellers diverted Medicaid funds to a shell company billing for work supposedly done by the nonexistent business." Kansas City Business Journal, August 22, 2012



- ...a senior program officer with the Buffett Foundation was charged with stealing \$46,000. Patel, who made \$190,000 a year, turned in false receipts for various types of expenses.
 Omaha World-Herald, May 22, 2012
- The Trauma Intervention Program in Vista, California prosecuted 79-year-old Judy G_____ for writing 181 checks to herself worth \$300,000 over a four year period. Omaha World-Herald, May 22, 2012
- "The former accounting director of the Roman Catholic Archdiocese of St. Paul and Minneapolis has been accused of stealing more than \$670,000 from the church.
 ...Diverted archdiocese checks to pay personal credit card bills, private school tuition for children and other personal expenses." Pioneer Press, June 15, 2012

Fraud Happens



 U.S. organizations lose _____% of their annual revenues to fraud.

 The median loss caused by occupational fraud was \$_____. More than one-quarter of the frauds involved losses of at least \$_____.

 The typical fraud lasted _____ months until the time it was caught by the victim organization.

Why do people commit fraud?



The key is to focus on prevention

If we prevent fraud, we avoid the losses

 In order to prevent, we must understand why fraud occurs

Why do they do it?



Vast majority are not career criminals

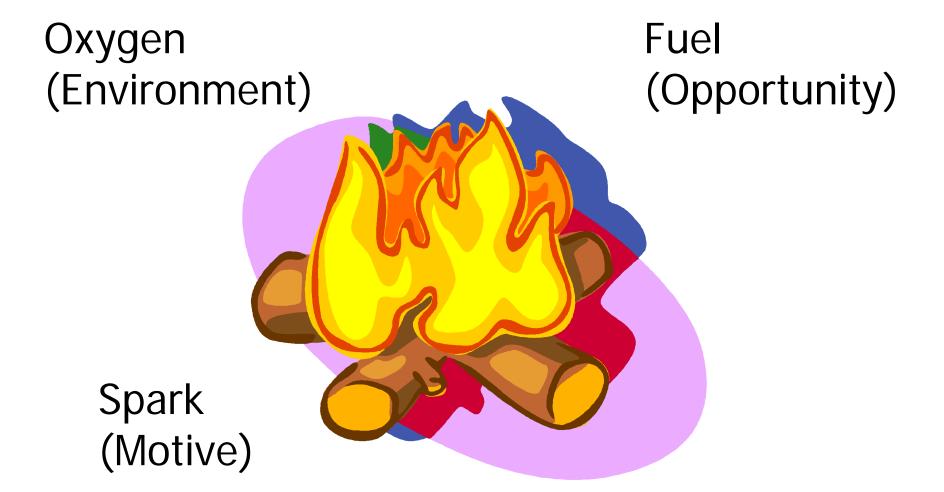
Most are trusted employees with no criminal history

 When 3 elements come together, the basically honest person will commit fraud...









Elements of Fraud



- Motive (Need) Individual has some financial problem he is unable to solve through legitimate means:
 - Inability to pay one's bills
 - Vice (Booze, person on the side, gambling, and/or drugs)
 - Status keeping up with the neighbors

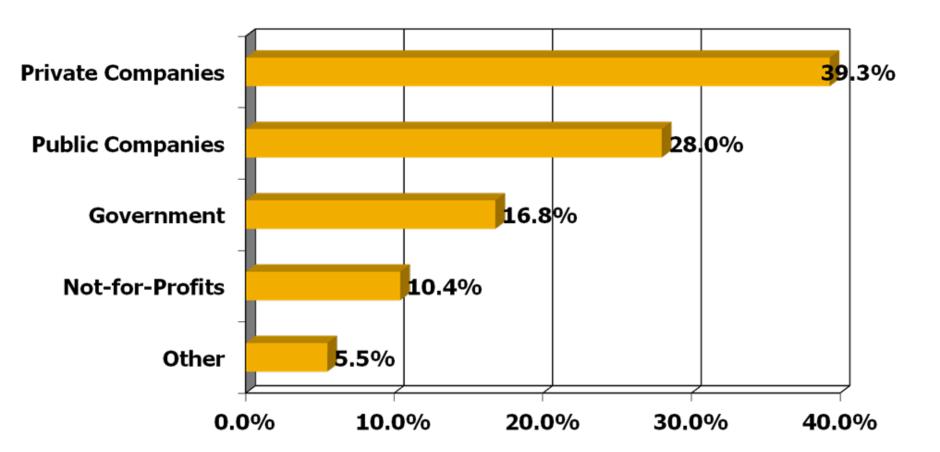
Elements of Fraud



- Opportunity The person must see a way of using his position with a low perceived risk of detection
- Environment Lack of controls must be present to enable the desired action to occur.
- The fraudster rationalizes the crime to himself before he commits the crime, after the act takes place, rationalization no longer important.



Organization Victim of Fraud

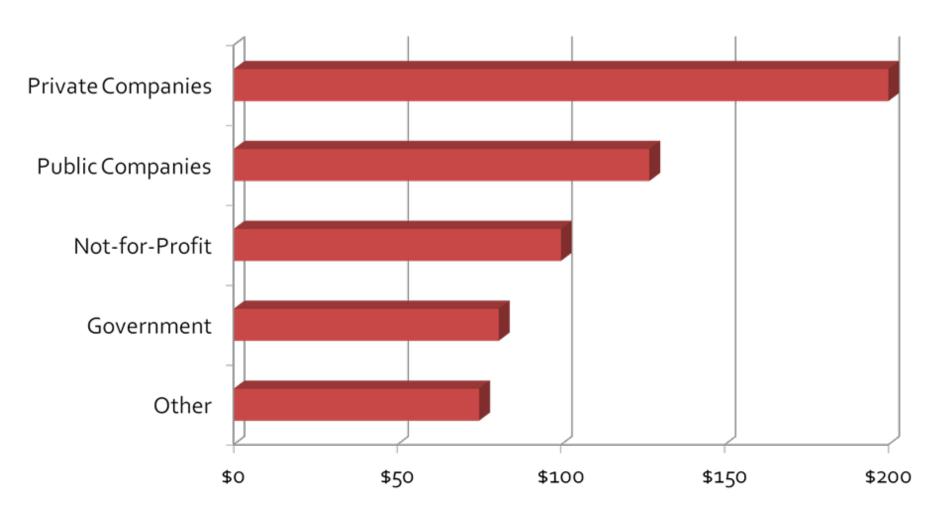


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Median Loss by Organization Type



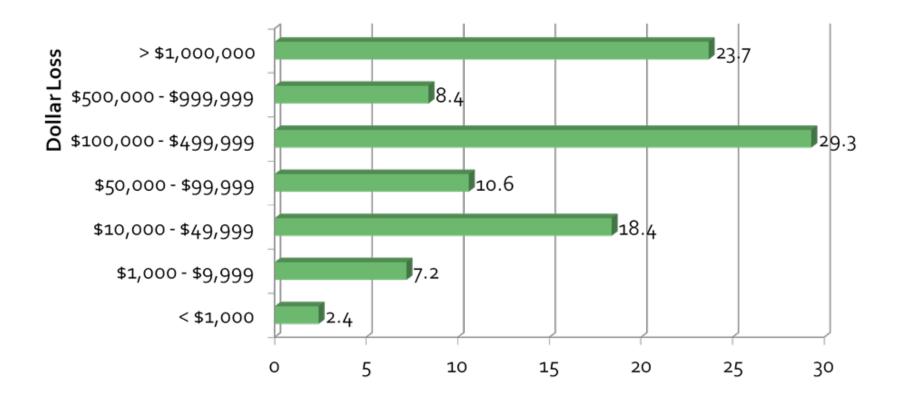
Median Loss in Thousands of Dollars



Category	Examples	% of all Cases	Median Loss
Asset Mis- appropriation	FraudulentinvoicesPayroll fraudSkimmingRevenues	86.3%	\$135,000
Corruption	Accepting or paying bribeConflict of interest	32.8%	\$250,000
Fraudulent Statements	Fictitious salesExpenses in wrong period	4.8%	\$4.1 million

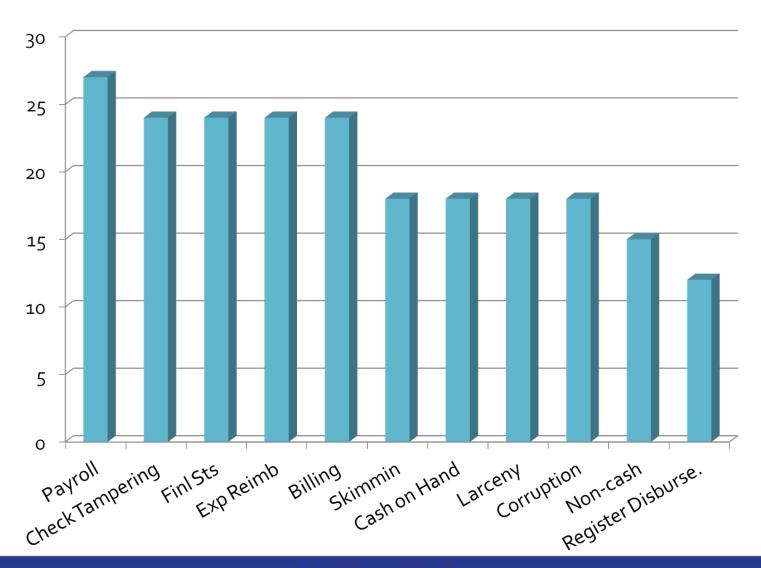


Distribution of Dollar Loss



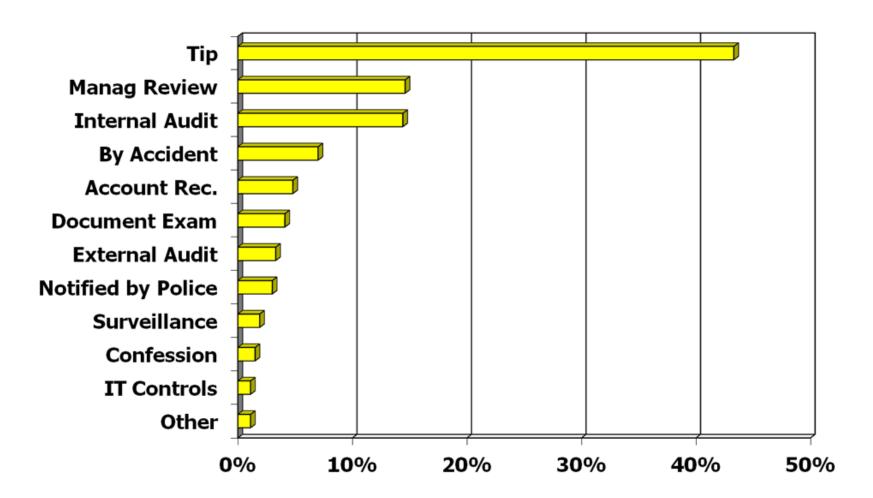
Percent of Cases

Median Duration of Fraud



NASCSP

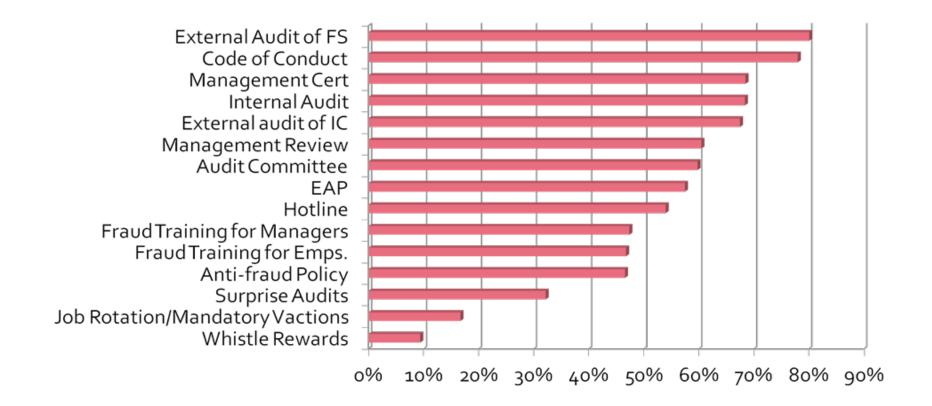
Initial Detection of frauds



Percent of Cases



Frequency of Anti-Fraud Controls



Percent of Cases

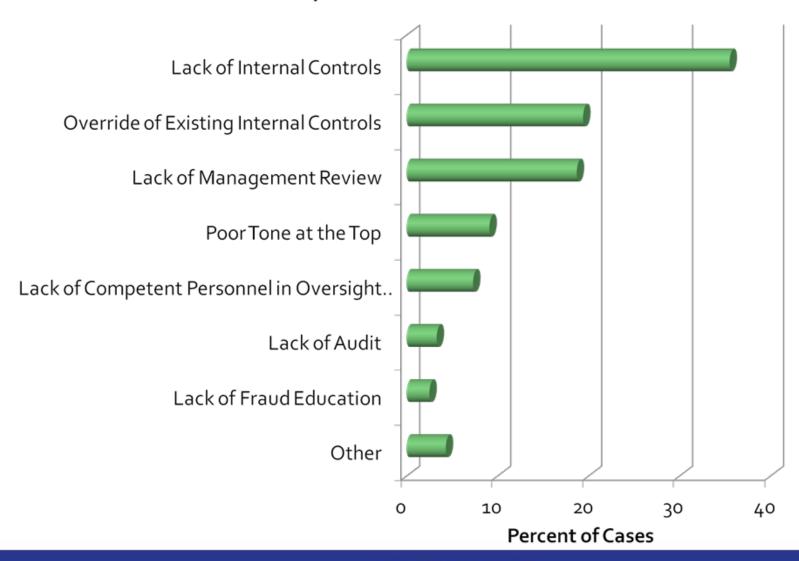


Effectiveness of Controls

Control	Used	Yes	No	Reduction
Management Review	60.5%	\$ 100,000	\$ 185,000	45.9%
Employee Support Programs	54.5%	100,000	180,000	44.4%
Hotline	54.0%	100,000	180,000	44.4%
Fraud Training for Managers	47.4%	100,000	158,000	36.7%
External Audit of IC	67.5%	120,000	187,000	35.8%
Fraud Training for Emps.	46.8%	100,000	155,000	35.5%
Anti-Fraud Policy	46.6%	100,000	150,000	33.3%
Formal Fraud Assessments	35.5%	100,000	150,000	33.3%
Internal Audit	68.4%	120,000	180,000	33.3%
Job Rotation/Mandatory Vac	16.7%	100,000	150,000	33.3%
Surprise Audits	32.2%	100,000	150,000	33.3%
Rewards for Whistleblowers	9.4%	100,000	145,000	31.0%
Code of Conduct	78.0%	120,000	164,000	26.8%
Independent Audit Commit	59.8%	125,000	150,000	16.7%
Management Certification of FS	68.5%	138,000	164,000	15.9%
External Audit of FS	80.1%	140,000	145,000	3.4%

NASCSP

Primary Weakness Observed





Age:

- **-** > 60
- **-** 51 60
- -41-50
- -36-40
- -31-35
- -26-30
- **< 26**





Age:

- **■** > 60 3.1%
- **■** 56 60 5.2%
- **■** 51 55 9.0%
- **■** 46 50 13.5%
- **41 45** 19.6%
- **■** 36 40 18.0%
- **■** 31 35 16.1%
- **■** 26 30 9.8%
- **■** < 26 5.8%

■ Largest dollar losses are in the 51-55 category (\$600,000) followed by over 60 at \$250,000





Tenure

- < 1 Year</p>
- -1-5 Years
- -6 10 Years
- > 10 Years





- Tenure
 - < 1 Year</p>
 - **1 5 Years** 41.5% of cases
 - $-6 10 \, \text{Years}$
 - > 10 Years
- Largest dollar losses are more than 10 Years followed closely by 6 – 10.



Annual Income

- **< \$50,000**
- **-** \$50,000 **-** \$99,999
- **-** \$100,000 **-** \$149,999
- **-** \$150,000 **-** \$199,999
- **-** \$200,000 **-** \$499,999
- **-** \$500,000 +

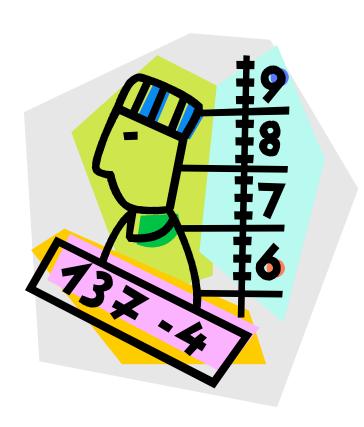




- Annual Income
 - **< \$50,000** 40.8%
 - **-** \$50,000 \$99,999
 - **-** \$100,000 **-** \$149,999
 - **-** \$150,000 \$199,999
 - **-** \$200,000 **-** \$499,999
 - **-** \$500,000 +
- Median loss relates proportionately to annual income



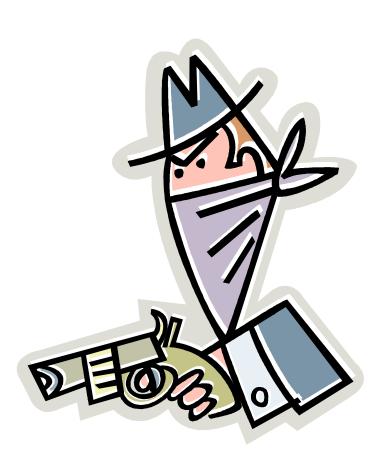




Gender

- Male
- Female
- Education
 - Postgraduate degree
 - Bachelor's degree
 - Some College
 - High School Grad





- Gender
 - Male 65.0 %
 - Female
- Education
 - Postgraduate degree
 - Bachelor's degree 36.9%
 - Some College
 - High School Grad



Position in Organization

- Accounting
- Operations
- Sales
- Executive/Upper Management
- Customer Service
- Purchasing
- Board of Directors
- Human Resources



Behavioral Red Flags



- Living beyond means
- Financial difficulties
- Unusually close association with vendor
- Control issues, unwilling to share duties
- Divorce/family problems
- Wheeler-dealer attitude
- Irritability, suspiciousness, or defensiveness
- Addiction problems
- Past legal Problems
- Past employment-related problems
- Complaining about inadequate pay
- Refusal to take vacations
- Excessive family/peer pressure for success
- Complaining about lack of authority

What do you think......



• For each:

- 1. As the monitor in each scenario, what concerns you about the situation you are given? What are the potential risks indicated?
- 2. What procedures might you conduct to gain further information? What evidence do you gather?
- 3. What controls would mitigate the risk exposure for this scenario?

What do you think......



 A. Paul's Paycheck. While reviewing a random check sample for cash disbursements, you notice Paul, the NPO Executive Director, is receiving an expense reimbursement for a sizable amount.

 B. Edith Employee. During a routine test of an agency's payroll transactions, you encounter missing timesheets, that are then supplied by the payroll preparer, once you ask.



What do you think.....





- C. Tom's Travel. While conducting a routine review of expense reimbursement request forms, you notice that Tom, a department head, signs as both the preparer and the supervisor.
 - D. Vlad the Vendor. During an on-site monitoring visit, an agency employee slips you a note that the Housing Program Director just had a new pool and patio installed by the construction company that is a major vendor of the agency.

What do you think.....





E. **Ginny's Grants.** While performing a desk monitoring, you note that the monthly reimbursement requests from Ginny's agency contains a request for exactly 1/12 of the yearly grant budget monthly. You also note that requests are usually received late.

Fiscal Monitoring & Red Flags



Why do we monitor...?

...because....



We want our programs, and therefore our agencies to be SUCCESSIUS!

Top 10 Risks for Non-profits

- 1. Loss of Government funding
- 2. Reduction in Foundation funding
- 3. Lack of succession
- 4. Workplace injury
- ▶ 5. Fraud
- 6. Data security
- > 7. IT downtime
- 8. Unrelated business activities
- 9. Disgruntled former employee
- 10. Natural disaster

Monitoring Continuum



PAST PRESENT FUTURE

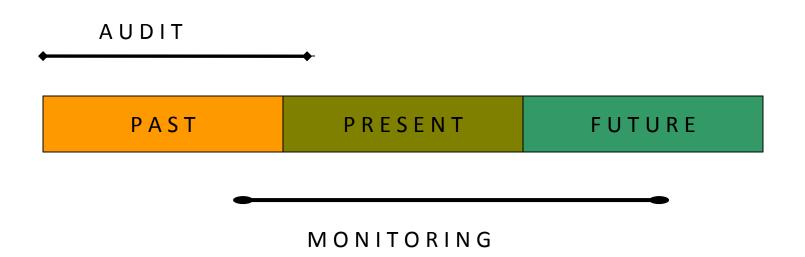
Monitoring Continuum





Monitoring Continuum





WHAT SHOULD WE BE TESTING IN OUR MONITORING?

TRANSACTIONS OR SYSTEMS

Success is



Organizational Soundness

Organizational Soundness

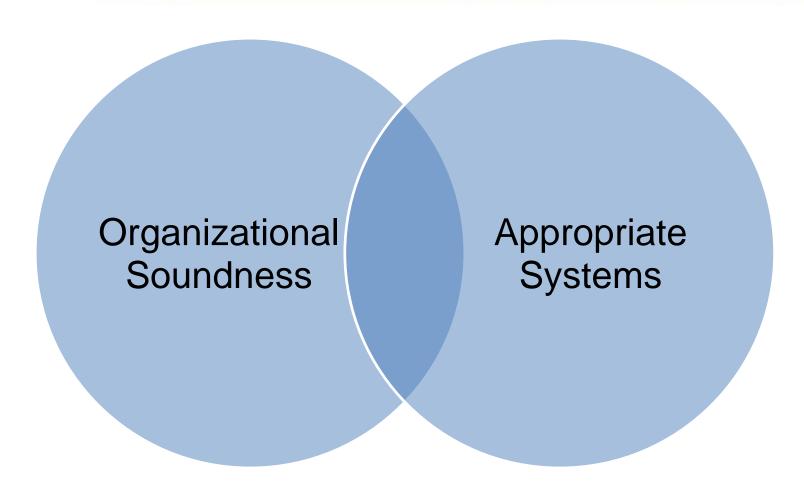


- What are we looking for:
 - Entity must exist
 - Foundation must be strong
 - Legal minimum requirements
 - Appropriate governance

- Assessment tools:
 - Organizational documents
 - Annual documents
 - Board meeting records
 - Board trainings
 - Does the Board take its fiduciary duty seriously?
 - Review financials

Success is





Appropriate Systems

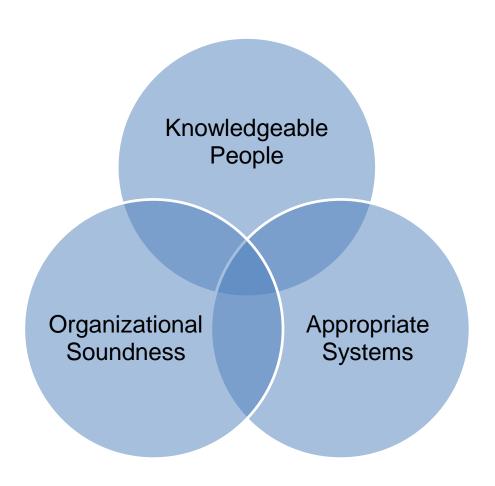


- What are we looking for:
 - Financial systems are in place that can support programs
 - Data systems provide accurate information
 - Compliance system is functioning as intended

- Assessment tools:
 - Annual audit is 'clean'
 - Reports coming out of system are correct
 - Someone is responsible for compliance

Success is





Knowledgeable People

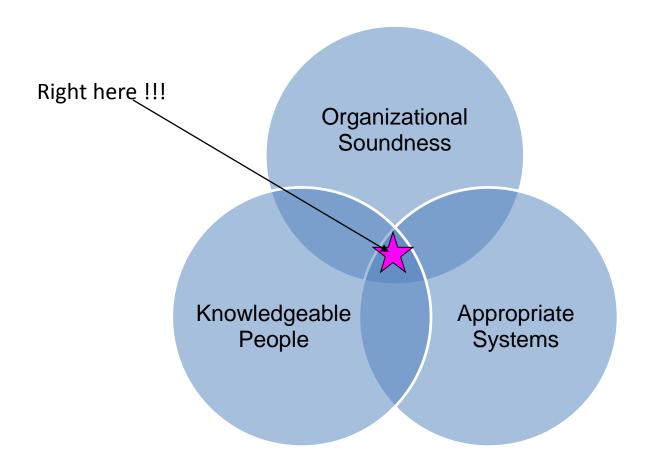


- What are we looking for:
 - People with the technical capabilities
 - People with the proper <u>motivation</u>

- Assessment tools:
 - Is the hiring process rigorous
 - Do people have the knowledge
 - Is there a professional development plan in place
 - Are there performance evaluations

Success is





Systems Testing Design



11 Δ

- Identify process objectives
- Review process with process owner
- Flowchart process
- Determine risks
- Identify controls in place
- Identify design gaps (deficiencies)
- Gather evidence
- Conclude if system is working as designed

SYSTEM: Flow of information



ij

Input

(Source Documents)

Process

(Approve, compute, and record)

Output

(Reporting)

Flow of Information



- 1. Initiating and authorizing transactions:
 - How and by whom
 - Source documents
- 2. Recording and processing transactions
- 3. How is incorrect processing resolved:
 - How are errors identified
 - How are they corrected
- 4. Reconciling and reporting financial information

System Basics



11 7

- A. Policies and procedures
- B. Segregation of duties
 - Authorizing transactions
 - Recording transactions
 - Maintaining physical custody of assets
- C. Documentation
- D. Independent checks
 - Audits
 - Spot checks
- E. Monthly budget vs. actual

Desired Outcomes



A sound financial reporting system includes methods and records that:

- 1. Identify and record all valid transactions (completeness).
- 2. Provide, on a timely basis, sufficient detailed information about transactions.
- 3. Allow for the recording of transactions at their proper monetary value.
- 4. Record transactions in the proper accounting period.
- Properly disclose transactions in the financial statements.

Practical Considerations



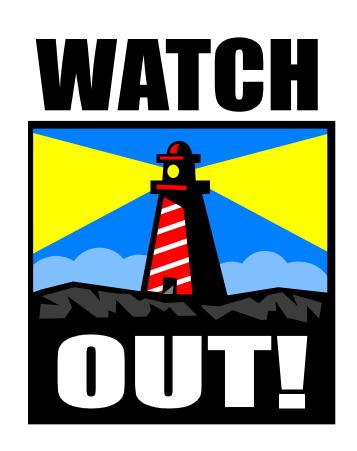
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JOURNAL ENTRIES

- How originated?
- Documentation required
- Reviewed and approved

• FICTITIOUS

- Vendors
- Employees



Must Haves



- Appropriate systems
 - Written financial policies and procedures
 - Proper segregation of duties
 - Timely reconciliations
 - Journal entry control
- Qualified and competent people
 - Written personnel policies and procedures
 - Staff development and appraisals
- Sound governance
 - Timely review of budget vs. actuals
- Audit

Common System Deficiencies



- 1. Lack of Segregation of Duties
 - Especially in smaller organizations
- 2. Lack of or outdated policies and procedures
 - Review every 3 years
- 3. Untimely information
- 4. Undocumented procedures
- 5. Lack of controls over specific exposures:
 - Ghost employees/Fictitious vendors/Journal entries
- 6. Inadequate Board or Management oversight

Common Findings



2

- Inadequate account reconciliations
- Unsupported adjusting journal entries
- Inadequate supervision of staff
- Staff lacking appropriate accounting skills
- Inadequate sense of ethical environment
- Lack of risk assessment
- Out of date financial policies and procedures
- Lack of financial monitoring
- Untimely financial processing



- Lack of segregation of duties
- Inadequate approval processes
- Undocumented cost allocation process
- Inadequate support documentation
- Reimbursement requests not reconciled to general ledger

Systems Testing Approach



12 4

Systems Concern

Competent people

Journal entry process

Possible Test

- Job descriptions
- Annual reviews
- ProfessionalDevelopment
- Documentation required
- Approvals

Systems Testing Approach



Systems Concern

Board oversight

Possible Test

- Approving budget
- Approving ED activity
- Reviewing monthly budget vs actuals
- Financial expertise
- Training & development
- Conflict of interest

Systems Testing Approach



Systems Concern

Policies and procedures

Information technology

Possible Test

- Fiscal policies
- Personnel policies
- Board policies
- Reviewed & updated
- Security reviewed
- Disaster recovery

Case Study - A



You are monitoring the Weatherization program of XYZ Community Action. XYZ completely outsources all production of weatherized units (it has no staff that do construction work). You have noticed from your desk review that the cost per unit for XYZ is exactly twice what it is for the three neighboring CAPS. The Weatherization director tells you this is not possible.

Case Study - A



You have the Finance Director assemble the following sub-contractor summary:

Able, Inc. \$ 84,500 for 42 units

Baker Company \$ 150,726 for 71 units

Charlie Corp. \$327,441 for 23 units

Currently, all invoices come into the finance office and are paid directly from there.

Do you have any concerns? What are your next steps? Any controls you might suggest going forward?

Case Study - B



You have been asked to monitor ABC CAP. In the review of payroll transactions, you notice that there are two employees who make more than the Executive Director.

In the current system, payroll is prepared by the accounting clerk. She also is a "people person" so she is the defacto Human Resource Department – conducting interviews and hiring new employees.

Does this cause you any concern? What additional records might you want to review? What enhancements to internal controls would you recommend?

Case Study - C



You are in River City to do the monitoring visit for the CAP. You have interviewed the program staff and are impressed with the knowledge and dedication of the program people. Next, you turn your attention to the fiscal office. When you arrive, 2 of the 3 fiscal staff are on vacation. About one-half of the items you asked to review are in a pile waiting for you in a small conference room.

Case Study - C



You try tracing a transaction from January through the general ledger and get confused because it is in, out, in twice, backed out three times and then posted backwards. When you ask for clarification, you are told only the finance director knows how to use that stupid 'generous leader' program. You finally call the Board Treasurer for help and he says that the Board has not looked at that month yet (it's October now).

Do you have any concerns? What 'red flags' are you seeing? Do you have any suggestions for improvements? If so, what are they?



• How do organizations get into trouble?

- Make bad decisions
- Depend on an undiversified revenue stream
- Fail to operate effectively and efficiently
- Make short-term decisions not long-term
- Have a 'bloated' administrative structure

- Is the organization able to meet its short-term obligations?
- Can the entity afford to pay off its long-term debt commitments?
- Is the organization using its resources efficiently?
- Does the entity have the right financing mix?
- What is the firm's ability to withstand setbacks?
- Is this organization one that we want to fund?

Before we start...



- Financial analysis is a science and an art
 - There is no one right way to conduct it
- Don't analyze the numbers in a vacuum
 - Numbers provide a 'trigger' for further questions
- You must know the environment (i.e. business, local economy, ...)

Disclaimers



Using the past to predict the future



- Rules of thumb
- Trends and benchmarking



- Operating results:
 - 1. Increase (Decrease) in Net Assets for the Year
 - Goal Breakeven or positive
 - Mitigating One time or planned result
 - 2. Actual vs. Budget
 - Goal actual within 2 3% of budget
 - Mitigating Emergency unplanned event or one time revenue
 - 3. Administrative expenses as a percent of total
 - Goal 10% or less
 - Mitigating possessing a funding source that funds



- Cash Flow Management
 - 4. Cash flow from operations
 - Goal Positive cash flow from operations
 - Mitigating Strong plan in place
 - 5. Grants receivable as a percent of annual grant revenue
 - Goal 30 days or less
 - Mitigating Strong capital in place to allow
 - 6. Payables as a percent of expenses
 - Goal 30 days or less
 - Mitigating contracts in place that allow slow pay



- Cash Flow Management (continued)
 - 7. Available cash on hand
 - Goal at least 15 days
 - Mitigating a well managed cash flow system
 - 8. Current ratio
 - Goal at least 1.25
 - Mitigating Very timely funding sources



- Future oriented measures
 - 9. Unrestricted net assets as a percent of revenue
 - Goal − 5 − 10%
 - Mitigating Strong planning systems in place
 - 10. Revenue dependency
 - Goal Largest revenue source is less than 25% of total revenue
 - Mitigating Strong program operations with little chance of funding disruption; program has strong political support



- Future Oriented Measures (continued)
 - 11. Long-term debt to net assets
 - Goal 25% or less
 - Mitigating Direct relationship between long-term assets and long-term debt is 1 to 1
 - 12. Debt service costs as a percent of expenditures
 - Goal 5% or less
 - Mitigating Long-term funding commitment is in place related to principal and interest



- Future Oriented Measures (continued)
 - 13. Future commitments (obligations) to revenue
 - Goal ????????
 - Mitigating Multi-year funding contracts in place
 - 14. Net book value of fixed assets
 - Goal at least 50%
 - Mitigating Good maintenance and safety program is in place

Financial Analysis Process



- EXAMPLE COMMUNITY ACTION
- Step 1 Acquire financial statements
 - -3 to 7 years, if possible
- Step 2 Quick Scan
 - Look for large changes
 - Look for <u>key</u> numbers
- Step 3 Review the financial statement footnotes

EXAMPLE COMMUNITY ACTION



14



Audit Essentials

What is an Audit?



- An audit is the professional opinion
- of a Certified Public Accountant



that the financial statements are fairly presented

 in accordance with Generally Accepted Accounting Principles (GAAP)

What an Audit is not!



Not a guarantee

Not an insurance policy

 Not a statement that the agency made good decisions

Not that the agency is in good financial condition

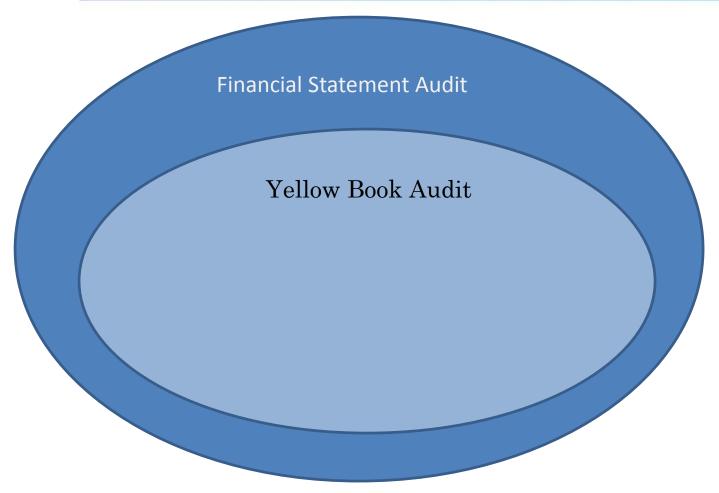
Types of Audits





Types of Audits





Types of Audits





Audit Procedures

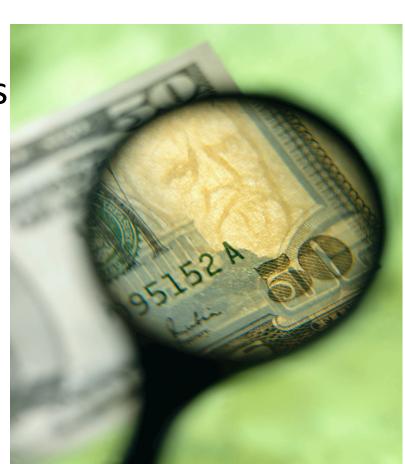


• 1. Plan the engagement

• 2. Review internal controls

• 3. Conduct the tests

• 4. Conclude & report



Board Engagement



1. Selecting the auditor

• 2. Planning the audit

• 3. Receive the report

4. Ensure findings are addressed

Audit Report





- Auditor's opinion on financial statements
- Financial statements
 - Statement of Financial Position
 - Statement of Activities
 - Statement of Cash Flows
 - Footnotes
- Schedule of Federal expenditures
- Auditor's report on internal controls
- Auditor's report on compliance

Board of Directors Example Community Action Agency Eau Claire, Wisconsin

O Report on Financial Statements

• I have audited the accompanying financial statements of Example Community Action Agency (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

O Management's Responsibility for the Financial Statements

O Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

O Auditor's Responsibility

- O My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Community Action Agency as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

O Report on Supplementary Information

Omy audit was performed for the purpose of forming an opinion on the basic financial statements of Example Community Action Agency taken as a whole. The accompanying schedule of program activity, Schedule A, and schedule of expenditures of federal awards and list of programs, Schedule B, which includes the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States. In my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

O Reports Issued in Accordance with Government Auditing Standards

O In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2013 on my consideration of Example Community Action Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example Community Action Agency's internal control over financial reporting and compliance.

O Jonathon Q. Auditor, C.P.A.

O January 27, 2013

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• Eau Claire, Wisconsin

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O In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Community Action Agency as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

O Report on Supplementary Information

Omy audit was performed for the purpose of forming an opinion on the basic financial statements of Example Community Action Agency taken as a whole. The accompanying schedule of program activity, Schedule A, and schedule of expenditures of federal awards and list of programs, Schedule B, which includes the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States. In my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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Omy audit was performed for the purpose of forming an opinion on the basic financial statements of Example Community Action Agency taken as a whole. The accompanying schedule of program activity, Schedule A, and schedule of expenditures of federal awards and list of programs, Schedule B, which includes the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States. In my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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- O Jonathon Q. Auditor, C.P.A.
- O January 27, 2013

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Eau Claire, Wisconsin

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O Report on Supplementary Information

Ommunity Action Agency taken as a whole. The accompanying schedule of program activity, Schedule A, and schedule of expenditures of federal awards and list of programs, Schedule B, which includes the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States. In my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Reports Issued in Accordance with *Government Auditing Standards*

O In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2013 on my consideration of Example Community Action Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example Community Action Agency's internal control over financial reporting and compliance.

Jonathon Q. Auditor, C.P.A. January 27, 2013

Eau Claire, Wisconsin

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Types of Auditor's Opinions



- Unqualified ("Clean")
 - Without Modification
- Qualified
 - Deviation from GAAP
 - Limitation of scope
- Adverse
- Disclaimer



Internal Controls



- Processes to insure the accomplishments of an entity's goals or objectives
- Characteristics:
 - Existence
 - Occurrence/cutoff
 - Completeness
 - Valuation
 - Rights and obligations
 - Presentation and disclosure

Basic Controls



Segregation of duties

Authorization of transactions

Records retention

Supervision

Physical custody of assets



Board of Directors Example Community Action Agency Eau Claire, Wisconsin

We have audited the financial statements of Example Community Action Agency (a nonprofit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated February 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, we considered Example Community Action Agency's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Example Community Action Agency's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Example Community Action Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify an deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Community Action Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Able & Friendly, C.P.A.s

Board of Directors
Example Community Action Agency
Eau Claire, Wisconsin

We have audited the financial statements of Example Community Action Agency (a nonprofit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated February 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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Board of Directors Example Community Action Agency Eau Claire, Wisconsin



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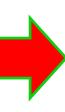
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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify an deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Able & Friendly, C.P.A.s

Board of Directors Example Community Action Agency Eau Claire, Wisconsin

We have audited the financial statements of Example Community Action Agency (a nonprofit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated February 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, we considered Example Community Action Agency's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Example Community Action Agency's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Example Community Action Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify an deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Community Action Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

We have audited Example Community Action's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Example Community Action's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Example Community Action's management. Our responsibility is to express an opinion on Example Community Action's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Community Action's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Example Community Action's compliance with those requirements.

In our opinion, Example Community Action complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

The management of Example Community Action is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Community Action's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express any opinion on the effectiveness of Example Community Action's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Board of Directors
Example Community Action
Eau Claire, Wisconsin

Compliance

We have audited Example Community Action's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Example Community Action's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Example Community Action's management. Our responsibility is to express an opinion on Example Community Action's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Community Action's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Example Community Action's compliance with those requirements.

In our opinion, Example Community Action complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

The management of Example Community Action is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Community Action's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express any opinion on the effectiveness of Example Community Action's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

We have audited Example Community Action's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. Example Community Action's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Example Community Action's management. Our responsibility is to express an opinion on Example Community Action's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Community Action's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Example Community Action's compliance with those requirements.

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

We have audited Example Community Action's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB)*Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

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Board of Directors Example Community Action Eau Claire, Wisconsin

Compliance

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Board of Directors Example Community Action Eau Claire, Wisconsin

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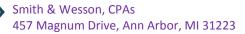
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Governance Letter



March 15, 2013

Board of Directors CAP of Ziegler County Ann Arbor, Michigan

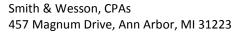
We have audited the financial statements of CAP of Ziegler County (Organization) for the year ended December 31, 2012, and have issued our report theron dated March 15, 2013. Professional standards require that we provide you with information about our responsibilities under United States generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2012 and in our meeting with the audit committee on October 20, 2012. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statement were allowances for uncollectible promises to give and accounts receivable; depreciation lives; valuation of donated materials, rent and services; and, the allocation of expenses by function.
- Management's estimates of the allowances for uncollectible accounts (pledges and accounts receivable) are based on a review of the individual accounts, historical experience and the nature of the receivable and economic conditions. The estimated useful lives of fixed assets are based on management's review of the assets and experience with similar assets. The estimated value of donated materials, rent and services is based on purchase prices of similar goods and services and management's experience with similar items. The estimate of the functional expenses allocation is based on estimates of employees' time and the activities of the Organization. We have evaluated the key factors and assumptions used by management to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.
- The financial statements disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit



March 15, 2013

Board of Directors CAP of Ziegler County Ann Arbor, Michigan

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Difficulties Encountered in Performing the Audit

March 15, 2013

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We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the use of the Board of Directors and management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

We thank management and staff for the courtesies extended to us during the course of our work. If there are any questions regarding our audit or this letter, we would be happy to discuss them with you.



Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A copy of the adjustments is available from Management.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements of the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 11, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with generally accepting accounting principles in the United States, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements.

Other Audit Findings or Issues

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Twin Cities Community Action Programs

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

- The auditor's report expresses an unqualified opinion on the financial statements of Twin Cities Community Action Programs.
- No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
- No instances of noncompliance material to the financial statements of Twin Cities Community Action Programs were disclosed during the audit.
- No reportable conditions were disclosed during the audit of the major federal award program as reported in the Independent Auditor's Report on Compliance With Requirements Applicable to the Major Program and Internal Control Over Compliance.
- The auditor's report on compliance for the major federal award program for Twin Cities Community Action Programs expresses an unqualified opinion.
- There were no audit findings relative to the major federal award program for Twin Cities Community Action Programs.
- The programs tested as major programs were the U.S. Department of Health and Human Services, Low Income Home Energy Assistance, CFDA #93.568 and Head Start CFDA #93.600.
- The threshold for distinguishing Types A and B programs was \$300,000.
- Twin Cities Community Action Programs was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Finding: None

Questioned Costs: None

https://www.dropbox.com/s/egpk ggbzi8fb7ei/Audit%20Essentials_W hat%20Every%20Board%20Needs %20To%20Know_FINAL.pdf

