

Implementation Tips for USAID Partners

Sharing Resources and Knowledge Among the Global CSO Community

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Definitions

ADS—The Automated Directives System encompasses the totality of USAID's regulations. It also includes suggested, but not mandatory, procedures and links to examples of best practices.

Allowable Cost—An incurred cost determined to be acceptable to the USG.

Audit—An independent review and examination of systems, records and activities.

Finding—Any error, exception, deviation or deficiency noted by an auditor as a result of an examination of audit evidence. Findings are generally related to (a) compliance policies, procedures and legal requirements, (b) adequacy and effectiveness of controls and/or (c) efficiency and effectiveness of administration.

Fiscal Year (FY)—Sometimes called a financial or budget year, a period organizations use for calculating “yearly” financial statements. It may or may not correspond to the calendar year, which is January 1 through December 31. The USG fiscal year covers a 12-month period that begins October 1 and ends September 30.

Management Decisions—The evaluation of a recommendation by management and a decision about an appropriate course of action.

References

[CFR 200 Subpart F](#)

Annual Audit Requirements: Frequently Asked Questions and Answers

Q. What is an annual audit and how does the audit process work?

A. An audit is an independent review and examination of an organization's systems, records and activities. Many donors require yearly audits of their grant recipients and subrecipients, and the U.S. Government (USG) is no different. Both prime recipients and subrecipients that receive a certain threshold of funds for the USG must conduct an annual audit.

An audit enables you to verify financial numbers, ensure their accuracy and identify and assess internal controls of your financial systems. It evaluates how you are spending USG funds and complying with the regulations set forth in your agreement. Think of it as a tool to help you keep your financial house in order. To ensure objectivity, an independent auditor, whom you hire, conducts the annual audit.

The audit process involves gathering financial and other records, providing them to your auditor, responding to your auditor's report and implementing corrective action plans. What follows are answers to some commonly asked questions about annual audits.

Who is Required to Conduct an Annual Audit?

- U.S.-based nonprofit organizations that expend US\$750,000 or more in total funding from the U.S. Government (USG), either directly or as a subrecipient, during their fiscal year.
- Non-U.S. nonprofits that expend US\$300,000 (either directly or as a sub) or more of USAID funding during their fiscal year.
- For-profit organizations that receive all or a majority of their funding from USAID will be reviewed annually to determine if an audit is required.

Are Audit Costs Allowable?

If your organization is required to be audited, the costs of conducting the audit are allowable, provided the audit is conducted according to the appropriate regulations outlined below.

An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.

If you are not required to be audited (in other words, if you do not reach the funding threshold), then audit costs are not allowable as a direct charge. The costs of a financial statement audit may be included in the indirect cost pool.

Where may I find the Audit Requirements?

U.S.-based nonprofits are governed by the rules outlined in 2 CFR 200 subpart F – Audit requirements. These regulations are the same regardless of what USG agency provides the majority of funding.

USAID ADS Chapter 591 governs all USAID for-profit and foreign-based recipients. This document may also be helpful to U.S.-based nonprofits as it provides clarification of 2 CFR 200 subpart F.

What Needs to be Audited?

An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.

In addition, if you have a large, complex organization with many different operational units, it is possible to have an audit focus on the organizational unit that receives USG funds.

What timeframe is covered by the audit?

The timeframe covered by the audit is your organization's fiscal year. In addition, the audit will look at previous audit findings to determine if corrective actions taken were sufficient to address previous findings.

Who May Conduct an Audit?

U.S.-based nonprofit organizations must follow the procurement process and regulations in their Cooperative Agreements.

USAID-funded foreign-based organizations should contact their in-country or regional mission to request a list of organizations authorized to conduct audits of USG programs.

If an audit is determined necessary for a USAID-funded for-profit organization, a USG official, rather than a private auditor, may conduct the audit. If a USG auditor is not available, USAID will direct the for-profit organization to hire an independent auditor.

If there are known and/or likely questioned costs that exceed US\$25,000, they must be reported as an audit finding.

What are Primes and Subs Responsible for If a Subrecipient is Audited?

Subrecipients submit their audits directly to the USG. They are not required to submit their audits to the prime unless there are findings related to the funding from that award, in which case they must submit a copy to the prime.

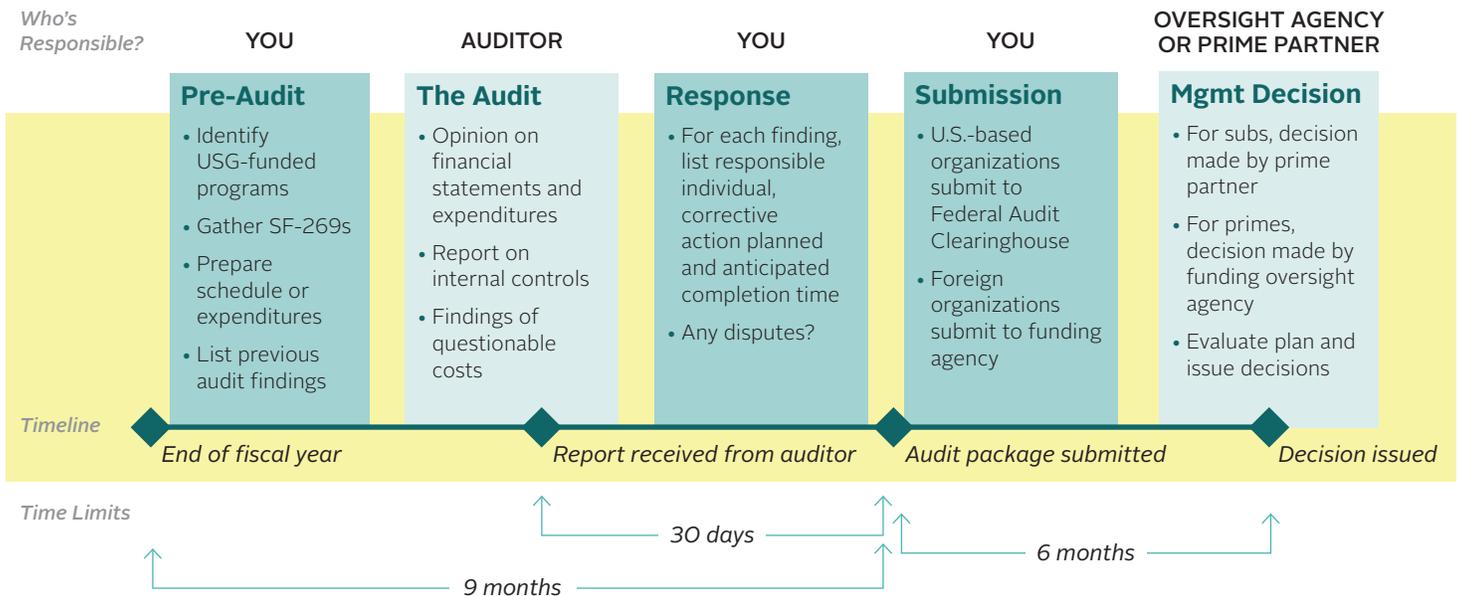
Primes need to verify that every subrecipient is audited as required and need to consider the results of the subrecipients' audits. A prime has the right to request a copy, regardless of whether or not there were findings, and this may be specified in the award between the prime and the subrecipient.

When subs have findings, the prime takes on the role of issuing management decisions on the corrective actions. The management decisions must be issued within six months of receiving an audit.

When is an Audit Due?

Your complete audit package must be submitted nine months after the end of your fiscal year or within 30 days of receiving the report from your auditor, whichever comes first.

Five Key Steps in the Audit Process



Who is Your Oversight Agency

If you receive funding from multiple USG agencies, one acts as your oversight agency and takes the lead on management decisions for any audit findings that relate to multiple USG agencies.

The oversight agency is the USG agency that provides the majority of funding in a given year. The oversight agency is responsible for:

- Providing technical audit advice to your organization and your auditor;
- Considering requests for extensions; and
- Reviewing the audit package for quality and completeness.

The Five-Step Audit Process

1. Before the Audit

Prepare the following before your audit is conducted:

- Identify all USG funds received and the programs under which they were received;
- Gather financial reports (such as SF-425s) covering the fiscal year;
- Conduct audit;
- Prepare a schedule of expenditures made under your USG awards; and
- Prepare a schedule of prior audit findings (if any).

2. The Audit

The audit will focus on the following questions:

- Were financial reports submitted during the year accurate?
- Were the rules, regulations and policies governing the award followed?
- What is the status of any previous audit findings?
- Are there any questionable costs?

3. Responding to Findings

If an audit results in any findings, each must be addressed specifically by your organization in a plan for corrective action. For each item, provide the following:

- The responsible individual;
- The corrective action planned; and
- The anticipated completion date.

The Corrective Action Plan prepared by the auditee in response to the audit findings should be documented separately from the auditor's findings. This is to help distinguish what is prepared by the auditors versus the auditee.

If you do not agree with an audit finding or believe corrective action is not required, then include an explanation and specific reasons.

4. Submitting to the USG

U.S.-based nonprofit organizations will submit their audit packages directly to the Federal Audit Clearinghouse (FAC). The FAC will distribute copies to the USG agency funding your award. Submit one copy to the clearinghouse, plus one copy for each USG agency that had audit findings in your report.

The address for the FAC is:

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132, USA

Your audit package must be submitted within 30 days of receiving the report from your auditor or 9 months after the end of your fiscal year (the audit period).

The Audit Package Must Include:

- SF-SAC Form (Data Collection Form for Reporting on Audits)
- Financial Statements
- Schedule of Expenditures Under USG Awards
- Summary Schedule of Previous Audit Findings
- The Auditor's Report
 - * Opinion on the Financial Statements
 - * Opinion on the Schedule of Expenditures
 - * Report on Internal Controls for Financial Statement
 - * Report on Internal Controls for Compliance
 - * Schedule of Findings of Questionable Costs
- Corrective Action Plan

You are not required to submit your audit directly to your USG funding agency.

Example: If you receive funding from USAID and the U.S. Centers for Disease Control and Prevention (CDC) but only had findings related to your CDC award, you are required to submit two copies (one for the FAC, one for CDC.)

Foreign and for-profit organizations may have different submission rules set by their funding agency. Please contact your funding agency, in-country, or regional Mission office for guidance.

5. Issuing Management Decisions

For each finding, the agency or the prime (in the case of a finding for a subrecipient) will issue a corresponding management decision within six months of receiving the audit package.

The management decision must clearly state whether or not the agency is supporting the audit finding, the reasons for the decision and the expected auditee action, such as repaying disallowed costs, making financial adjustments or taking other action.

If the auditee has not completed corrective action, a timetable for follow-up will be given. The management decision should describe any appeal process available to the auditee.

For More Information

For this or other issues of *Implementation Tips*, please visit www.NGOConnect.net. The Web site is a dynamic and interactive portal dedicated to connecting and strengthening CSOs, networks and CSO support organizations worldwide.

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Audit Follow-Up

In addition to submitting the audit package, you will be responsible for implementing your corrective action plan. Be sure to maintain documentation showing your progress on each item.

Even if there were no findings relevant to a particular USG agency, that agency still may request a copy of your audit directly from you. Further, the USG reserves the right to conduct its own audits, regardless of the outcomes of your audits.

Finally, you are required to maintain records and a copy of the audit package for a minimum of three years following submission or three years after a finding from that year was resolved.

