

Head Start Audit Glossary

A number of terms are commonly used in discussing financial audits. For governing board and policy council members who are new to the fiscal world, knowing the meaning of these commonly used terms is the first step towards embracing responsibility for safeguarding federal funds. This glossary introduces you to a number of the most common terms.

Audit: A financial audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements as well as evaluating the financial systems used to gather this information. This testing process enables an independent certified public accountant (CPA) to issue what is referred to as

"an opinion" on how fairly the agency's financial statements represent its financial position and whether they comply with applicable accounting principles, laws, regulations, in addition to specific terms and conditions of the grant award.

Audit Finding: Deficiencies that the auditor is required by section 510a of A-133 to report in the schedule of findings and questioned costs.

Corrective Action: Action taken that corrects identified deficiencies, produces recommended improvements or demonstrates that audit findings are either invalid or do not warrant action.

Disclaimer of Opinion: A judgment by the external auditors that they are unable to express an opinion about the financial statements in conformity with GAAP due to incomplete information from management.

Footnotes: Notes that provide a description of the organization and information about its tax status, accounting policies, fixed assets and depreciation, funding sources, debt and other financial factors.

Generally Accepted Accounting Principles (GAAP): A basic set of principles, standards, and procedures for recording and reporting transactions that attempt to achieve uniformity in the way that financial statements are presented. Prescribed by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

Generally Accepted Auditing Standards (GAAS): Rules and procedures followed by a certified public accountant (CPA) when conducting an audit. Promulgated by the American Institute of Certified Public Accountants (AICPA).

Going Concern: An organization that operates without the threat of liquidation for the foreseeable future, a period of at least 12 months. Long-term stability and grantee viability are critical to the provision of high quality, comprehensive services, and continuity of care.

Major Program: A Federal program determined by the auditor to be major based on dollars expended and a risk analysis.

Management Letter: A letter that an independent auditor may issue with the audit report that is not intended for public disclosure. Provides a summary of the auditor's observations, findings conclusions, and recommendations regarding the organization's accounting systems, financial policies and procedures, and fiscal health. Findings may include material noncompliance, significant deficiency, material weakness, or going concern.

Materiality: A concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework such as Generally Accepted Accounting Principles (GAAP). The assessment of what is material is left to professional judgment, and is relative to the size and particular circumstances of individual organizations. Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements.

- **Material Noncompliance:** The auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the A-133 compliance supplement.
- **Material Weakness:** An audit finding of a deficiency in internal controls, which is more severe than a significant deficiency, indicating a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected in a timely manner.

Opinion: A statement recorded in an auditor's report by the external auditor; it is of three major types:

- **Adverse Opinion:** The lowest level opinion from an external, independent audit. Indicates that the financial statements as a whole are not in conformity with generally accepted accounting principles (GAAP).

- **Qualified Opinion:** The opinion from an external, independent audit. Indicates that the financial statements as a whole are presented in conformity with generally accepted accounting principles (GAAP), with the exceptions noted that describe the deviations from GAAP, restrictions to audit scope, and potential lack of supporting audit evidence.
- **Unqualified Opinion:** A “clean” opinion from an external, independent audit indicating that the financial statements are fairly stated. The grantee has complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major program.

Opinion Letter: A letter produced by the external auditors at the conclusion of their review of fiscal year-end financial data that expresses judgment on whether the management-prepared financial statements are presented fairly and accurately reflect the financial status of the organization. The opinion may be unqualified, qualified, adverse, or disclaimed. *(See below)

Program-specific Audit: An audit of one Federal program.

Questioned Cost: A cost that is questioned as allowable by the auditor or the Federal agency because of an audit finding that resulted from a violation or possible violation of a law or regulation. Questioned costs also occur where costs are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Single Audit: an audit that includes the entity's financial statements and the Federal awards as described in OMB A-133.105(d); and covers the entire operation of the grantee agency.

Significant Deficiency: An audit finding of a deficiency in internal controls that is less severe than a material weakness, yet important enough to merit attention from those charged with governance.

Sub-recipient: The non-Federal entity to which a subaward is made and which is accountable to the recipient for use of the funds provided in carrying out a Federal program. A sub-recipient may also be a recipient of other Federal awards.