Live Questions and Answers (Q&A) from the Aug. 1, 2013 Rebroadcast of the Office of Head Start A-133 Audit Training Webcast: Making the Most of Your Annual Audit

OHS A-133 Audit Training Q&A

Belinda: We'd like to thank everyone who has attended the rebroadcast of the OMB A-133 webcast today. Many of you have submitted questions during the webcast, and we want to take some time now, on a live basis, to answer those questions that have been submitted.

This is Belinda Rinker. I'm a senior advisor to the Office of Head Start, and I'll be leading our discussion this afternoon. Also joining me are Jim Belanger, who is a CPA with Danya International, and Jim Krimmel, who is with the CPA firm of Hamilton & Musser. So I'll be referring to these gentlemen as Jim B. and Jim K. during today's discussion.

So, Jim B., are you with us?

Jim Belanger: Yeah. Good afternoon, Belinda.

Belinda: Thanks, Jim. And, Jim K., are you here too?

Jim Krimmel: I'm here, ready to answer some questions.

Belinda: Okay, great. Just to let folks who are listening know, Ann Linehan from the Office of Head Start and Jeannie Chaffin, who were with us during the original broadcast, are not able to join in today's discussions, but send their greetings and their appreciation for those who attended today.

There are a couple of questions that have come up that I want to go ahead and just get out of the way early. And the first one of them is whether the materials and slides and the sample audit that were made available during the webcast will be posted somewhere or can be downloaded so those slides could be used perhaps for training purposes. And those will be posted on the Early Childhood Learning and Knowledge Center, or ECLKC, website. And everyone who registered for the webinar either Tuesday or today will get a link to be able to access those materials. So, they will be made available.

The other question that we've gotten a couple times is, "Gee, I'm almost ready to get my five year grant, and I'm going to attend this webinar, and attending this type of webinar is one of the five year grant conditions. Is this going to meet the condition even though my grant hasn't started?"

And my preliminary answer is yes, for those of you who have five year grants coming up. What I don't know and will go back to the Office of Head Start and inquire is how far in advance can you watch this webinar and still have it count toward that post-award requirement. So we'll get – when we post the materials, we'll actually put a little note up to let you know that information as well.

So those are the kind of administrative questions. Let's go ahead and dive into some of the more substantive questions. And I'm going to start – Jim Belanger, I have a question for you. On Tuesday we talked about this concept of going concern. And the question I have here says, "Gosh, I thought that going concern was a good thing and that organizations wanted to be going concerns. But it was mentioned that going concern is a DRS criteria – a Designation Renewal System criteria, which would require grantees to re-compete for their funding."

Jim, can you address that distinction between being a going concern organization and having a going concern finding in your audit?

Jim B.: I agree with the questioner. It's a little bit confusing. A going concern is usually a good thing. It means your business will continue to function. However, the auditors only discuss going concern when there's substantial doubt, when they think there is a threat of liquidation within the next 12 months. And so, they will indicate that on the top opinion page – that top signature page. They'll put a paragraph in there discussing the substantial doubt as to the going concern. And that might be based on a significant loss in revenues or repeated operating losses, maybe liquidity problems, lack of cash.

So, to kind of recap, it is good to be a going concern, but it is bad when your auditor feels the need to point out his or her substantial doubt as to your ability to continue as a going concern. So the – if that does pop up in your audit opinion, it does indeed trigger that DRS condition under 1307.3. So a going concern audit opinion would make a grantee subject to re-competition.

Belinda: Thanks, Jim. And I, like you, took a look at the requirements of section 1307, and the actual language there says that "the agency is found to be at risk of failing to continue functioning as a going concern." So that's the actual language from the regulation, and I think that makes it a lot clearer.

Okay, the next question I have is for you, Jim K. And the question is: "Mr. Krimmel referenced a health care tax credit. Can he expand briefly so we can follow up with our auditor?"

Jim K.: Okay. I have a mile-long email or website address here. I'll put this out. But if you don't catch all this as I give the address, if you Google "business health care tax credit" or "small business health care tax credit," it will probably – the address I'll give is probably the first one that will show up. And if you leave that to your auditors, if they're not aware of that – or whoever prepares your 990 – that should give them the information that they need to investigate this for you.

The website officially is – you can write this down – www.irs.gov\uac\small-business-health-care-tax-credit-for-small-employers. Now, it says "small business," but that doesn't mean that it doesn't apply to nonprofit organizations. There are some significant limitations to who qualifies, but it is worth a calculation of hours and wages. There's limitations on number of employees and average wage. But if you do qualify, it can be significant.

Belinda: Okay, great. Thanks a lot, Jim. I appreciate that. I'm going to go ahead and answer the next question, which is, "Can you please give examples of equipment inventory?" And before we talk about that, I just want to make sure that we have a consistent definition of "equipment," which is items with a unit cost of $5,000 or more and a useful life expectancy of at least a year. And so when we say "equipment," that's the definition that applies.

And it's important to take a look at the grants management requirements for inventory that apply to your organization, and those will either be found in 45 CFR 74.34 or 45 CFR 92.32, depending on your type of organization, although the requirements are fairly similar. And it is important to go and take a careful look at those actual regulations because there's a complete laundry list of items that need to be included in that inventory, including a description of the equipment, the serial number or model number, where the equipment source was, what award number supported its acquisition, how title to the equipment is held, when it was acquired, and there's even more items that have to be included.

In terms of, you know, what does an equipment inventory look like, one example is the Office of Management and Budget form that is sometimes used to create inventories. It's called the SF – like Sam, Frank – SF-428. And that can be a good example of an inventory form. But that form is not mandatory. And so if you want to keep your inventory in a spreadsheet, you can certainly do that in an access database that you would just need to be able to generate a report of some kind, which would include all of that required information. Our grants administration requirements in Head Start say that those inventories need to be updated and reconcile disbursed documentation at least once every two years.

I think that's all. Do either of you Jims have anything to add on equipment?

Jim K.: Belinda, just one. This is Jim K. Just one practical way to maybe consider doing this is I've suggested and several of my clients have just used a camera and have taken pictures of each room in their facility and then used that as a guide then to attach that list. And even if the equipment is less than the $5,000 starting point, it can be helpful to include that because this can also be used if there was some kind of destruction from fire and you needed this as an insurance record.

Belinda: That's a great point, Jim. I mean, one of the hard lessons that came to our grantees who were impacted by Hurricane Sandy is that, for insurance purposes, many times you want to at least have some record of items that are less than that $5,000 threshold that you certainly would need to replace if there were some kind of catastrophic loss.

Jim K.: That is correct.

Belinda: And it's probably also important to mention that even though equipment is focused on in this response, there are other regulations that apply to other kinds of assets. And just to also be clear, that whether an item is classified as equipment or not, if it's purchased with federal Head Start dollars, that item actually has a federal interest in it. So there is a federal reversionary or beneficial interest in any property, whether it's on the inventory or not, that's purchased with federal Head Start dollars. So hopefully we answered that question completely.

Okay, let's take a look at the next question. This one I think I'm going to also ask, Jim K., if you would answer this one. It says, "You mentioned the form 5500. Does the auditor typically prepare this form?"

Jim K.: Well, that's a good question, a fair question. That's really just something that each organization needs to decide. Sometimes their pension plan administrator will prepare that, their actuarial firm could prepare that, or their accounting firm. So there's no requirement as to who prepares it. It's just, the reason I mention that is if it's something that you want to have your accounting firm or your auditing firm prepare, that should be included in your RFP so that they are aware that that's what you're requesting.

Belinda: Okay. So again, that’s a good hint that we heard also yesterday, which is to really put some planning into how you want to prepare that request for proposal and what it is that your organization really needs to effectively supports its fiscal activities. Thanks, Jim.

Jim K.: Correct.

Belinda: Anything else? Did I miss anything from Jim Belanger? Jim, did you have anything else to add?

Jim B.: No, I don't.

Belinda: Okay. Well, then I'm going to turn the next question over to you. And this one is – I'll just summarize it. It talks about the idea of – this is a grantee who has several federal programs but also receives private funding support and understands that keeping programs at zero balances is important, and the funding sources equal out when revenue and expense reports are run. But the question is, "Do I report only the federal monies received as expenditure or should I include the private support which equals the larger total expense?"

Jim B.: I think it's a very good question. And I'm very reluctant to give a detailed answer on it because, in this environment, you know, we hear the question but we don't get to ask follow-up questions and get enough information to be comfortable with the answer we give. So I think what I'll do instead is refer to the questioner to the ECLKC website, the Early Childhood Learning and Knowledge Center website. And there's a tab in there for training and technical assistance, and under that another tab for program management and fiscal operations. And you'll find some fiscal reporting information on how the SF-425 should be completed.

You know, based on the limited information I heard, it sounded reasonable to just record that net amount of local funding as non-federal share. But I think it's important to go back to the official guidance, and if necessary, pull in your program specialist in your Regional Office to make sure that the form is completed in a way that's going to support the needs of the Regional Office.

Belinda: That's great advice, Jim. I mean, there is – Regional Offices are a great resource to grantees. The program specialist, as well as the grants managers or fiscal operations specialists, can really help grantees understand what the regional expectations and needs are in terms of responding to these. So I think that's a great place to send the person who's asked this question because we don't have complete information. Jim Krimmel, did you have anything to add? If not, I do have a question that I was going to direct to you.

Jim K.: No. I think that was good advice, too.

Belinda: Okay, great. The question here is… This is a grantee who has had federal funding, and the federal funding has been below the $500,000 threshold that requires the single audit. And then upon receiving Head Start funding, the threshold is reached. So because of the receipt of additional federal dollars in the form of Head Start funds, this grantee now needs to have an annual single audit. And the question was, "Does that need to be allocated or could it be charged all to the Head Start program because it's the program that pushed the requirement over the threshold?"

Jim K.: That's a good question. That should be spread amongst – well, the organizations responsible for that funding and – or, excuse me, for that cost. They could charge it to all unrestricted non-federal, non-grant funds if they chose to. But it is a fair cost to the federal programs, but it needs to be allocated. It can't just be charged to the one that tipped them over. However, if they're that close, by the way, they should keep their eye on the $750,000 level that will be coming sometime in the near future and – because that might take that single audit away again.

Belinda: Right. And I guess we'd want to also keep in mind what I heard during the webinar, which was if you're going kind of in and out of having an audit one year and not having an audit another year, you know, you may want to consistently be audited. But then that would be a decision in the event that that threshold is raised. So right now at $500,000… Go ahead.

Jim K.: That's right. Yes, but I was assuming that the question was just the added layer of the single audit, that they – that if they're less than $500,000, they very well may still be audited. It's just that the additional cost of the single audit that's been – which usually adds cost to the audit process, should that get charged just to the Head Start?

But you're correct. In fact, I've even advised clients that drop below the $500,000 but they anticipate going back over it the next year and the following years, and historically they've been over, they just happened to slip under this year, that they may very well want to continue the single audit process in that – in that year, even though it was not required. But that's a decision for the board to make.

Belinda: Right. Okay. That's really good information. Thanks, Jim.

Let's see. We just have a couple of more questions. Oh, here's one that I'll answer. This comes in from someone who says that, as a grantee, they're a school district, and they were wondering how the requirement that the governing body be involved in the choice of the audit firm be implemented for a situation like theirs where an auditor is assigned.

And there is an exception in section 642 that applies, and the language says that "the governing body needs to be involved in the selection of the auditor." And then there's a parentheses that contains the exception, and it says, "Except when a financial auditor is assigned by the state under state law or is assigned under local law." So if the auditor is assigned by state or local law, the governing body is not involved in the selection process, but it's still required that all critical accounting policies and practices be reported to the governing body. So they certainly still need to receive the audit report. That was a pretty straightforward question.

I just want to make sure that there are no questions that I've missed. I did receive one question that asked about how the National External Audit Review – how the NEAR center manages their decision-making process on audit findings. And this is an area where I'm not sufficiently familiar, and I don't think any of us on the call today are with internal workings of NEAR. And so, we're not going to be able to answer that question.

But we will – anything that we're unable to answer today or we feel we don't have enough information, we will either get back to whoever submitted that question and give a direct response. Or if it's a general question that we feel needs to be responded to universally, we can also post additional responses when we post the information that will go up on the ECLKC. And I don't have a date certain by when the Early Childhood Knowledge and Learning Center will have these materials, but we will send out a link to all attendees when they're available. They have to be – to go through a process before they can be posted.

So, I think we've covered all of the questions that I saw come in. And I would just like to ask, Jim Belanger, do you have any closing comments that you'd like to make?

Jim B.: Well, I just want to thank you for having the opportunity to participate. It was a good process. And even in hearing the questions, you always get the chance to learn something new, so it was good for me, too.

Belinda: Thanks, Jim. Jim Krimmel?

Jim K.: I would agree with that. I appreciate the opportunity to participate. And I agree; excellent questions and very thought-provoking, and I'm glad that people are taking this very seriously.

Belinda: Yes. And myself, Belinda Rinker, and on behalf of Ann Linehan with the Office of Head Start and Jeannie Chaffin with the Office of Community Services. I know that both Ann and Jeannie emphasized during our live broadcast how important audit and audit quality are for Head Start and Early Head Start and for other human service grantees to promote that efficiency and transparency that everyone is looking for in those who receive federal funds today.

And so, I appreciate everyone's attendance. And with that, we'll close today's webinar. Thank you again for attending.