



Financial Audits: Key Regulations and Tips

Head Start Act Sec 642 Governing Body Responsibilities (paraphrased, not exact wording)

Financial auditors, except when assigned by state or local law, shall:

- Report all critical accounting policies and practices to the governing body
- Monitor agency actions to address audit findings
- Comply with applicable laws and regulations regarding financial statements and accounting practices

Governing bodies should:

- Review and approve all major policies of the agency
- Review and approve the annual self-assessment and financial audit

Each Head Start agency shall ensure the sharing of accurate and regular information for use by the governing body and the Policy Council, about program planning, policies, and Head Start agency operations, including the financial audit.

TRAINING AND TECHNICAL ASSISTANCE - Appropriate training and technical assistance shall be provided to the members of the governing body and the Policy Council to ensure that the members understand the information they receive and can effectively oversee and participate in the programs of the Head Start agency.

Head Start Program Performance Standard 45 CFR § 1302.102

(b) *Monitoring program performance.* (1) *Ongoing compliance oversight and correction.* In order to ensure effective ongoing oversight and correction, a program must establish and implement a system of ongoing oversight that ensures effective implementation of the program performance standards, including ensuring child safety, and other applicable federal regulations as described in this part, and must:

- (i) Collect and use data to inform this process;
- (ii) Correct quality and compliance issues immediately, or as quickly as possible;
- (iii) Work with the governing body and the policy council to address issues during the ongoing oversight and correction process and during federal oversight; and,
- (iv) Implement procedures that prevent recurrence of previous quality and compliance issues, including previously identified deficiencies, safety incidents, and audit findings.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards

- *Audit Requirements:* A non-federal entity that expends \$750,000 or more during the non-federal entity's fiscal year in federal awards must have a single audit conducted.
- *Frequency of Audits:* Audits must be performed annually.
- *Report Submission:* The audit must be submitted within the earlier of 30 calendar days after receipt of the auditor report (s), or nine months after the end of the audit period. Unless restricted by federal statutes or regulations, the auditee must make copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information. The Federal Audit Clearinghouse is the repository of record for 45 Part 75 subpart F reporting packages and the data collection form.
- *Auditee must:*
 - (a) Procure or otherwise arrange for the audit required and ensure it is properly performed and submitted when due.
 - (b) Prepare appropriate financial statements.
 - (c) Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.

Selection of Auditor

Step 1: Plan Carefully.

Be clear about what needs to be done and when. Planning to hire an external auditor requires time and attention. Define audit expectations, including the entity to be audited, scope of the audit, ability to address Head Start audit requirements, preference for Head Start audit experience, how audit proposals will be evaluated, and audit timeline expectations. Consider consulting the agency's governing body member(s) with a background and expertise in fiscal management or accounting to assist in planning to hire an auditor.

Step 2: Communicate Audit Requirements and Solicit Proposals.

Free and open competition is required in the solicitation of audit services. The audit expectations developed in planning should be clearly communicated in the agency's solicitation for bids or proposals. Be sure to include the period to be audited; a clear statement that the resulting audit must meet Head Start requirements; and minimum expectations such as appropriate licensure, meeting independence standards, a record of responsible work, and compliance with requirements for peer review and continuing professional education.

Step 3: Evaluate Proposals to Select the Auditor.

Once the proposal period has closed, it is important to utilize a uniform process for evaluating auditor proposals. This process should provide a systematic framework for selecting an auditor on the basis of needs and expectations defined in the planning process and communicated in the procurement process. After minimum standards are met, proposals should be further evaluated for extent of understanding the audit requirements, a sound technical approach with realistic timelines, relevant experience and qualification of the audit organization, and sufficient experience and education of key personnel to be assigned to the audit. Once proposals have been evaluated, consider price in selecting the proposal that is most advantageous to the organization.

Step 4: Document Expectations.

A written agreement between the auditor and the agency can avoid problems and clarify important issues such as deadlines for work to be performed, final cost, payment terms, and any support services to be provided by the auditor, such as presentation of the audit to the governing body and follow-up reporting of agency actions to correct monitoring findings. The written request for audit proposals and the response of the selected auditor should be incorporated into the written agreement.

Step 5: Ensure a Complete and Timely Audit.

Carefully monitoring the progress of the audit ensures that the agency receives the type and quality of audit services agreed upon. An audit creates a working relationship between the agency and the auditor with the shared goal of producing a timely and high-quality audit. It is important to monitor timelines, receive periodic progress reports, and hold regular meetings to discuss issues that need to be resolved. Meet with the auditor at the completion of the audit to discuss the draft report to ensure a clear understanding of the report and its findings.

Resources

- [AICPA-OHS Audit Webinar](#)
- [Head Start Audit Compliance](#)



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