The Auditor's Guide to Successful Virtual Audits for INGOs

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- Technical questions about the survey can be addressed to Nathan McElveen at nmcelveen@grfcpa.com.

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Additional Information

Learning Objective To provide attendees with the tools and best practices they need to get the most from their virtual audit, and be better prepared to address the new risks and challenges presented by the pandemic.	**Instructional Delivery Methods** Group Internet-based
Recommended CPE 1.0 CPE Credit	**Recommended Fields of Study** Auditing – Technical
Prerequisites None required	**Advance Preparation** None
Program Level Basic	**Course Registration Requirements** None
Refund Policy No fee is required to participate in this session.	**Cancellation Policy** In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
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Today's Presenters

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Agenda and Objectives

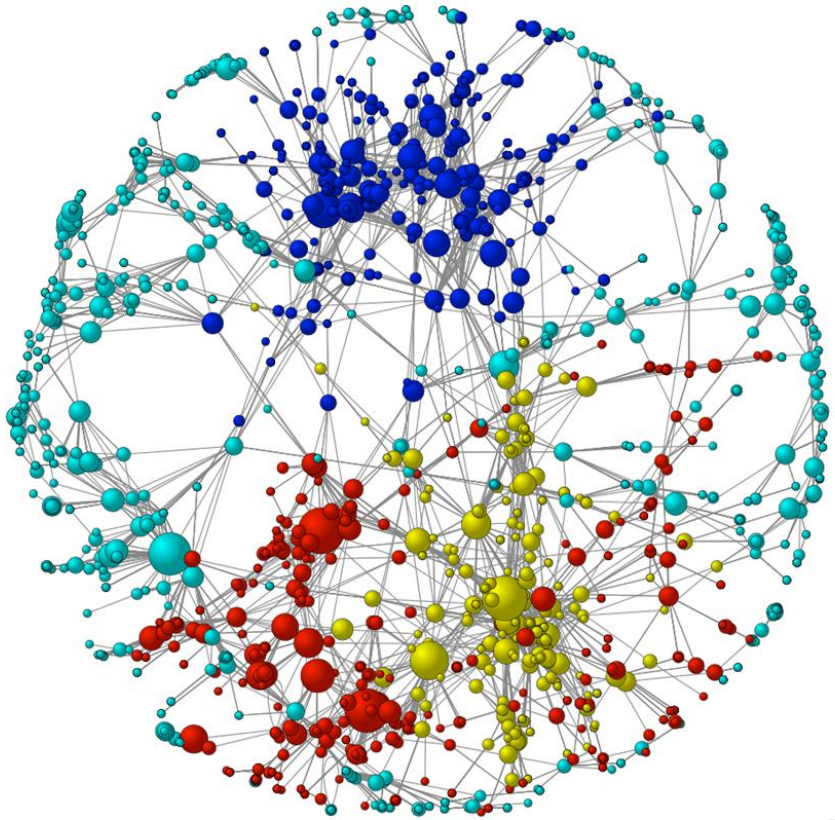
- Risks for INGOs emerging from the pandemic
- The pandemic's impact on audit processes for international audit engagements
- Compliance challenges for grant recipients
- Best practices for your virtual audit
- Indirect costing considerations for forgivable federal assistance programs

Uncertainty

Geopolitical Changes

Natural Disasters

Cyber Threats and Privacy Concerns



Disruptive Innovation

Regulators and Host Country Governments

Labor Market Challenges

Reputation

Terrorism Concerns

Pandemics

Shift in Demographics

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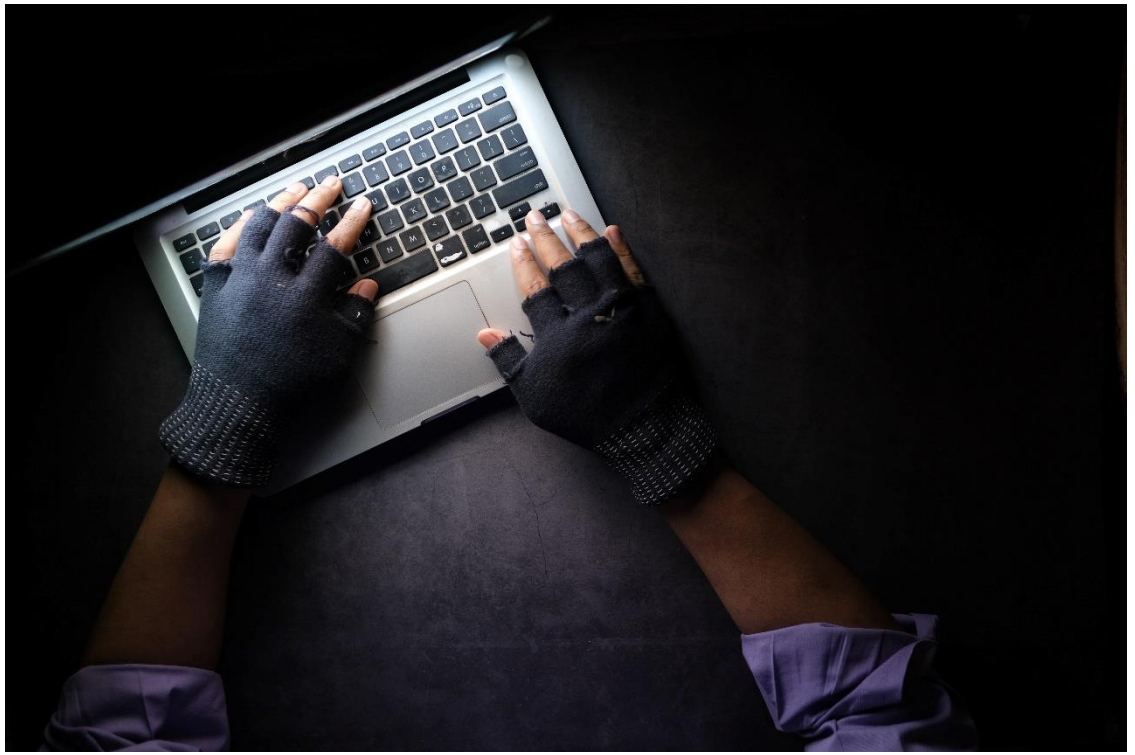
Top Risks in 2021

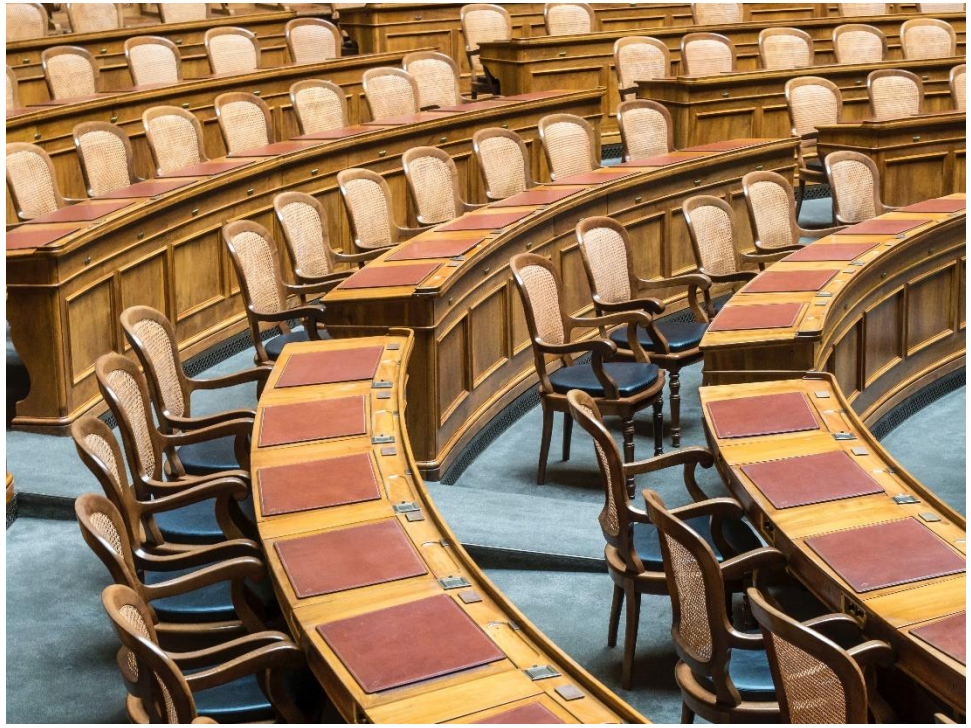
- Managing Cybercrimes
- Local Regulatory Changes and Government Policies
- Privacy and Security
- Talent Management and Succession
- Employee vs. Contractor
- Governance Risk
- Third-Party Risk
- PPP Loans

Cybercrimes

- Going virtual: security issues
- Cloud computing, mobile devices
- Security training and awareness
- Periodic cybersecurity assessments
- Insurance



Local Regulatory Changes and Government Compliance



- Local entity registration requirements
- Activities that threaten local country interests; security concerns; terrorism
- Changes in employment laws and termination benefits; visas, taxes
- Seek local counsel and accounting expert advice
- New policies related to travel, distancing, shutdowns, vaccines

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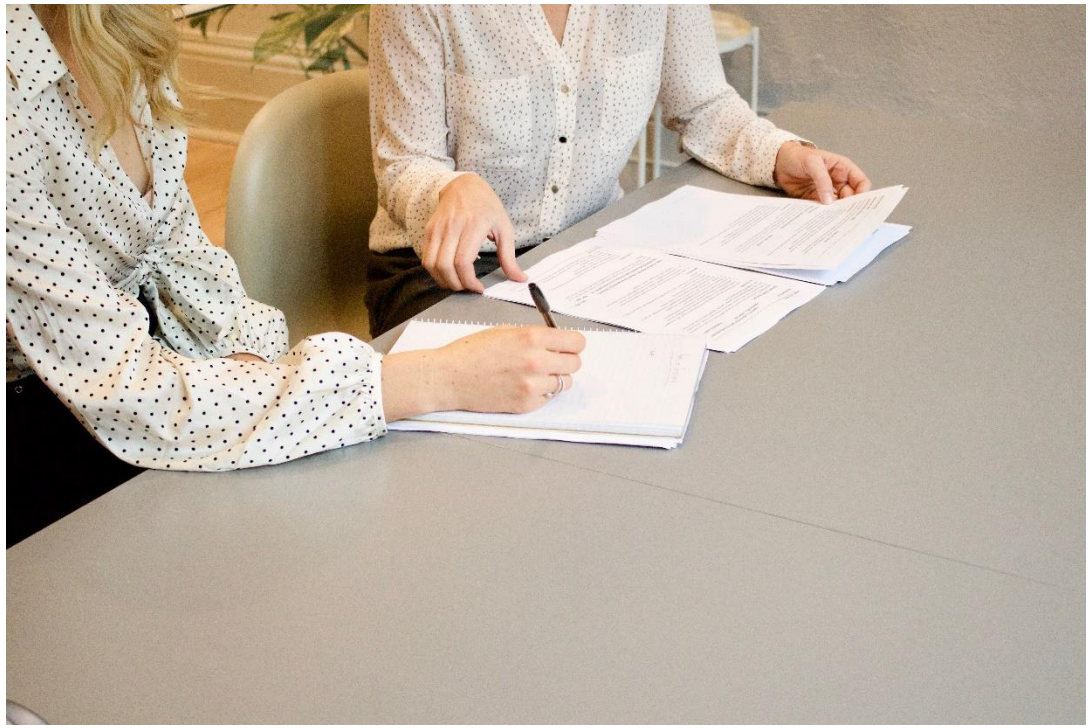
Privacy and Security

- Collection, Storage and Security
- Identity management
- GDPR compliance and other international data transfer considerations
- Data and privacy laws evolving

Talent Management and Succession

- Embracing digital technologies
- Strain of social distancing and remote work environment; health and safety
- Skill level, change in job function
- Thoughtful planning for CEO retirement
- Disaster and business continuity
- Volunteer staff and related risks
- Social media concerns



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Employee vs. Contractor

- Classification/Determination
- Economic dependence and control
- Internal Policies and Procedures: HR/Legal/Accounting
- Tracking of Leave and Overtime
- Termination Liabilities

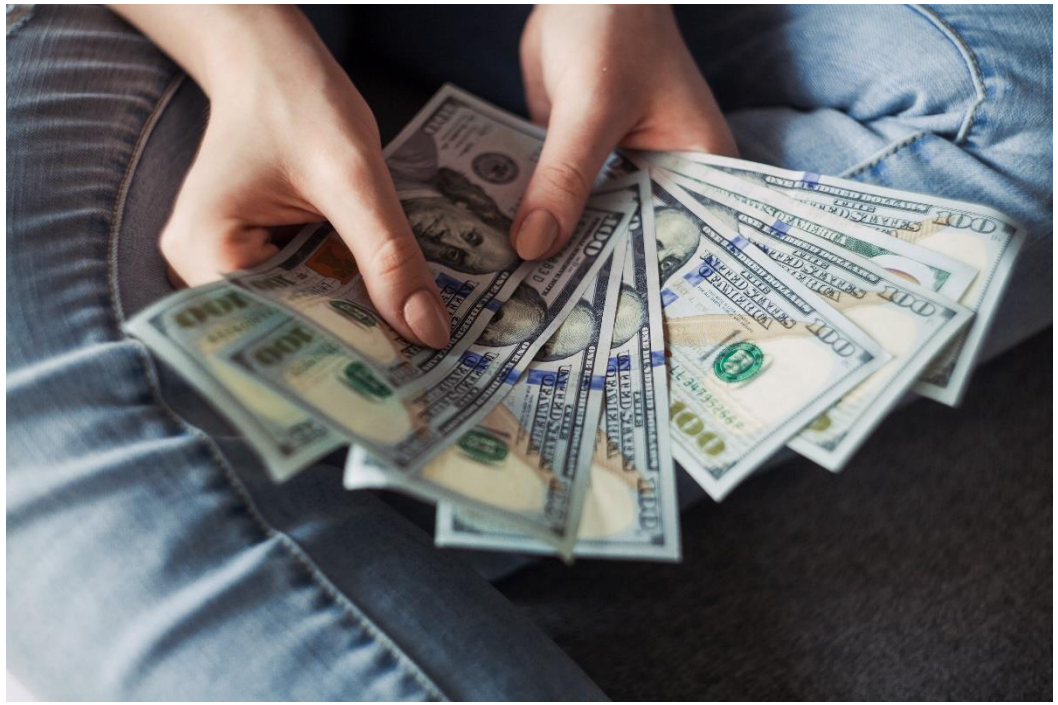
Governance Risk

- Assessing Enterprise Risk
- Engagement and Involvement
- Education on Cyber-Risk Landscape; Third Party
- Professional Responsibilities

Third Party Risk

- Due diligence
- Cyber breaches impacting organizatior
- Understanding systems, controls, insurance

PPP Loans



- Understanding compliance requirements
- Accounting for use of funds
- Managing reporting and complex reimbursement schemes

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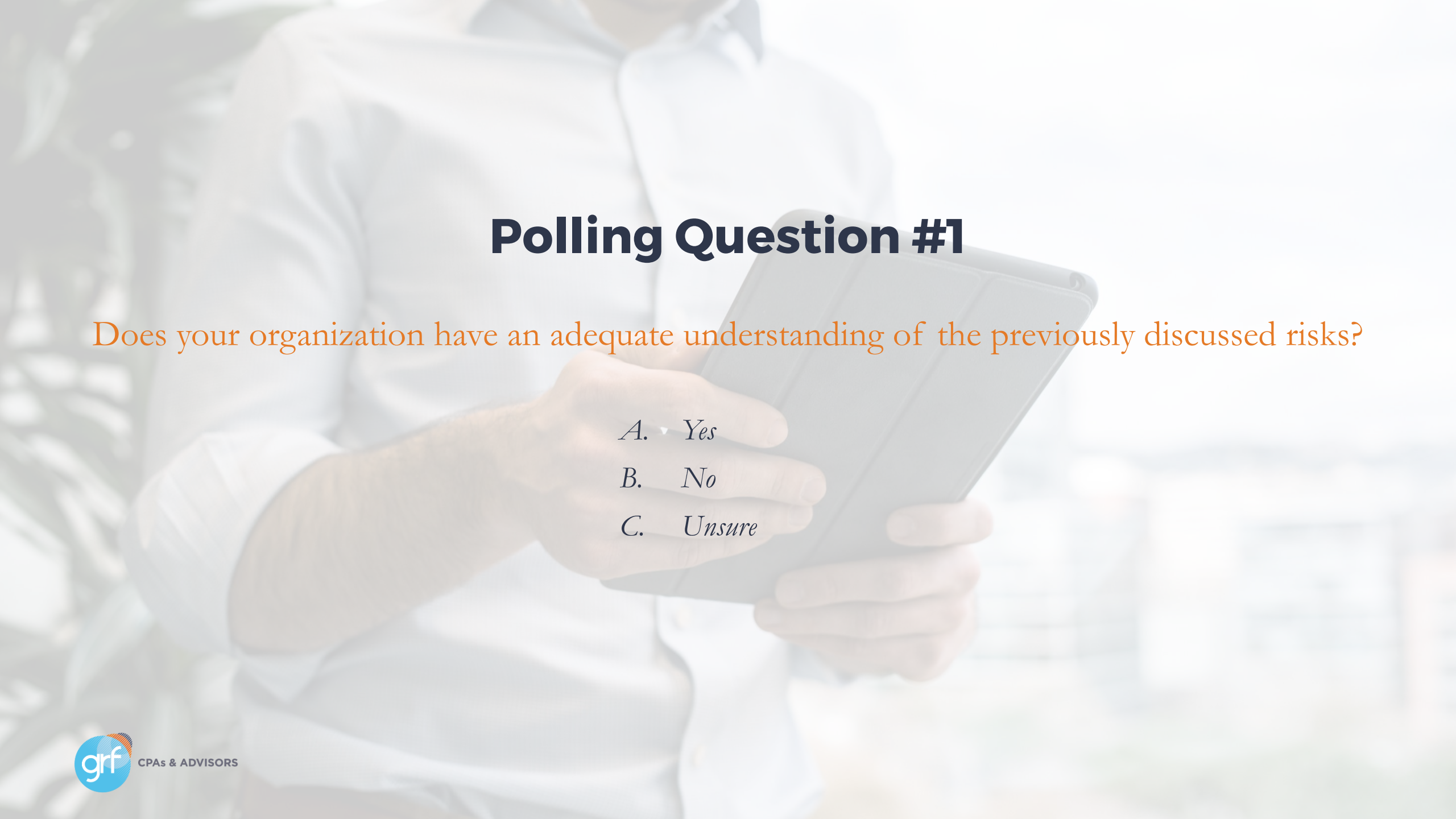

Polling Question #1

Does your organization have an adequate understanding of the previously discussed risks?

A. Yes

B. No

C. Unsure

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General Audit Preparation

- Audit Timeline and Scheduling
- Due Dates
  - Uniform Guidance
    - The audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.
  - USAID Financial Audit Guide for Foreign Organizations
    - The recipient must submit final audit reports to the cognizant USAID Operating Unit within 30 days after receiving the report from the audit firm, but no later than 9 months after the end of the period audited.

General Audit Preparation

- Process Overview
  - Preliminary Information
  - Expense Transaction Testing
  - Other Compliance Testwork
    - Procurement
    - Suspension and Debarment / Preventing Transactions with Sanctioned Parties
    - Cash Management and Reporting
    - Equipment Management
    - Cost Sharing
    - Subrecipient Monitoring
    - Indirect Costs

Audit Preparation – PBC List

- Schedule of Expenditures of Federal Awards
- Grant Agreements
- Detailed Transaction Listings by Grant
- Federal Financial Reports
- Schedule of Federal Cash Receipts
- Cost Share Reports
- Policies and Procedures
- Additional Items for Closeout Procedures

Expense Testing - Expectations for Supporting Documentation

- Expenditures Other Than Payroll
  - Invoice, request for payment, expense report
  - Purchase Requisition
  - Purchase Order and/or Vendor Contract or Framework Agreement
  - Goods Received Note / Work Completion Certificate
  - Review and Approval
  - Federal Awarding Agency Approval (when required)
  - Documentation of Procurement Procedures
  - Evidence of Vendor Screenings

Expense Testing - Expectations for Supporting Documentation

- Payroll Expenditures
  - Pay register / Pay slip, documenting calculation of gross and net pay
  - Proof of payment
  - Employee timesheet (indicating projects worked and number of hours)
    - Timesheet should be signed by employee and supervisor
  - Employee Contract (including amendments) – Basic pay per contract should agree to payslip amount
  - Evidence of employee screenings

Compliance - Procurement

- Key requirements
  - 2 CFR 200.318 General procurement standards and 2 CFR 200.319 Competition
    - Documented, written procurement procedures
    - Oversight of contractors
    - Written standards of conduct covering conflicts of interest
    - Maintain records sufficient to detail the history of the procurement
    - Provide full and open competition
  - 2 CFR 200.320 Methods of procurement to be followed
    - Micro-purchases
      - Federal threshold of $10,000
      - Nonfederal entity may self-certify a higher threshold up to $50,000 on an annual basis, if justified
      - Thresholds over $50,000 must be approved by the cognizant agency

Compliance - Procurement

- Key requirements (continued)
  - 2 CFR 200.320 Methods of procurement to be followed
    - Small purchases
      - Applies to procurements higher than the micro-purchase threshold but less than the simplified acquisition threshold (SAT)
        - SAT is determined by the non-Federal entity, but cannot exceed $250,000
      - Price or rate quotations must be obtained from an adequate number of qualified sources as determined by the non-Federal entity

Compliance - Procurement

- Key requirements (continued)
  - 2 CFR 200.320 Methods of procurement to be followed
    - Formal procurement methods
      - Require documented procurement procedures (Bids, Proposals)
    - Noncompetitive procurements
      - Only allowable if one of five circumstances apply
        - Amount of procurement does not exceed the micro-purchase threshold
        - The item is available only from a single source
        - Public exigency or emergency does not permit delay resulting from formal procurement
        - After solicitation of a number of sources, competition is determined inadequate

Compliance - Procurement

- Key Requirements (Continued)
  - USAID Mandatory Standard Provisions: Procurement Policies and USAID Eligibility Rules for Procurement of Commodities and Services

    - Recipient must use its own procurement policies and procedures
    - Distinguish between a procurement and a subaward
    - Conduct procurements in accordance with written policies
    - Provide for fair and unbiased competition
    - Maintain system for contract administration
    - Avoid conflicts of interest
    - Retain all procurement records and make such records available to USAID upon request
    - Certain types of commodities and services are ineligible
    - Suspended, disbarred, or sanctioned suppliers may not be used
    - Additional requirements for restricted commodities
    - Comply with source and nationality requirements

Compliance - Procurement

- Documentation Expectations
  - Documented written procurement policy
    - Include dollar value thresholds and applicable procedures
  - Expenses transactions selected for test work supported by:
    - Basis for contractor selection
    - Justification for lack of competition when competitive bids or offers are not obtained
    - Basis for award cost or price

Polling Question #2

Which of the following is not a procurement method described in the Uniform Guidance?

A. *Micro Purchase*
B. *Small Purchase*
C. *Fast Purchase*
D. *Full and Open Competition*

Compliance – Suspension and Debarment

- Key Requirements
  - 2 CFR 200.214 Suspension and debarment
    - Non-Federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. The regulations in 2 CFR part 180 restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Compliance – Suspension and Debarment

- Key Requirements
  - 2 CFR 200.215 Never contract with the enemy
    - Federal awarding agencies and recipients are subject to the regulations implementing Never Contract with the Enemy in 2 CFR part 183. The regulations in 2 CFR part 183 affect covered contracts, grants and cooperative agreements that are expected to exceed $50,000 within the period of performance, are performed outside the United States and its territories, and are in support of a contingency operation in which members of the Armed Forces are actively engaged in hostilities
  - 2 CFR 200.216 Prohibition on Certain Telecommunications and Video Surveillance Services or Equipment
    - Prohibition against using grant funds to obtain telecommunications equipment produced by certain companies
    - USAID Section 889 Task Force FAQ published 10/23/2020

Compliance – Suspension and Debarment

- Key Requirements (Continued)
  - USAID Mandatory Standard Provision – Debarment and Suspension
    - The recipient must not transact or conduct business under this award with any individual or entity that has an active exclusion on the System for Award Management (SAM) (www.sam.gov) unless prior approval is received from the Agreement Officer.
  - USAID Mandatory Standard Provision – Preventing Transactions With, or the Provision of Resources or Support to, Sanctioned Groups and Individuals
    - The recipient will not engage in transactions with, or provide resources or support to, any individual or entity that is subject to sanctions administered by OFAC or the United Nations (UN), including any individual or entity that is included on the Specially Designated Nationals and Blocked Persons List maintained by OFAC
  - USAID Required as Applicable Standard Provision – Never Contract with the Enemy

Compliance – Suspension and Debarment

- Documentation Expectations
  - Written policies and procedures
    - Discuss who is subject to screening, when screening occurs, who is responsible
    - How the screening is performed (automated vs. manual)
    - Maintain evidence of the screening, including date screening was performed

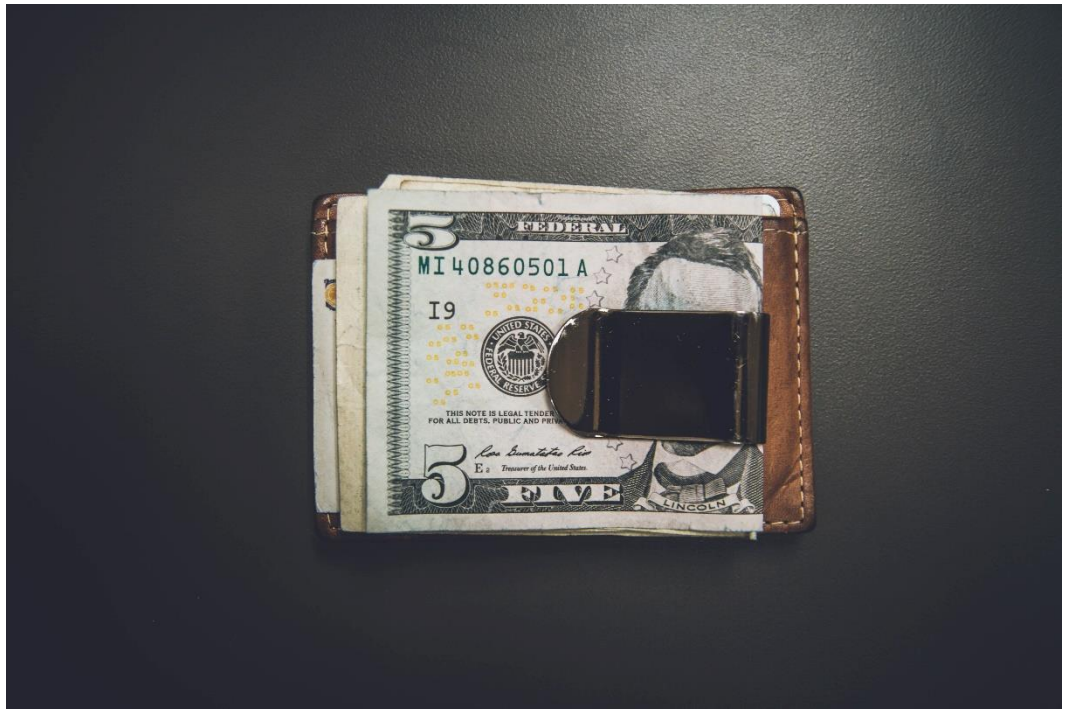
Compliance – Cash Management and Reporting

- Key Requirements
  - 2 CFR 200.305 Federal Payment
    - Payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity
    - Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs.

Compliance – Cash Management and Reporting

- Key Requirements
  - USAID Required as Applicable Standard Provision - Advance Payments and Refunds and Reimbursement Payments
    - Recipient must maintain advances of USAID funds in interest-bearing accounts, unless exceptions apply
    - Recipient may retain up to $500 of interest earned in a 12-month period on USG cash balances for administrative expenses
    - Recipient must request advance payments for anticipated expenditures at time intervals as close as is administratively feasible to the actual disbursements by the recipient
    - SF-270 and SF-425 Forms

Compliance – Cash Management and Reporting



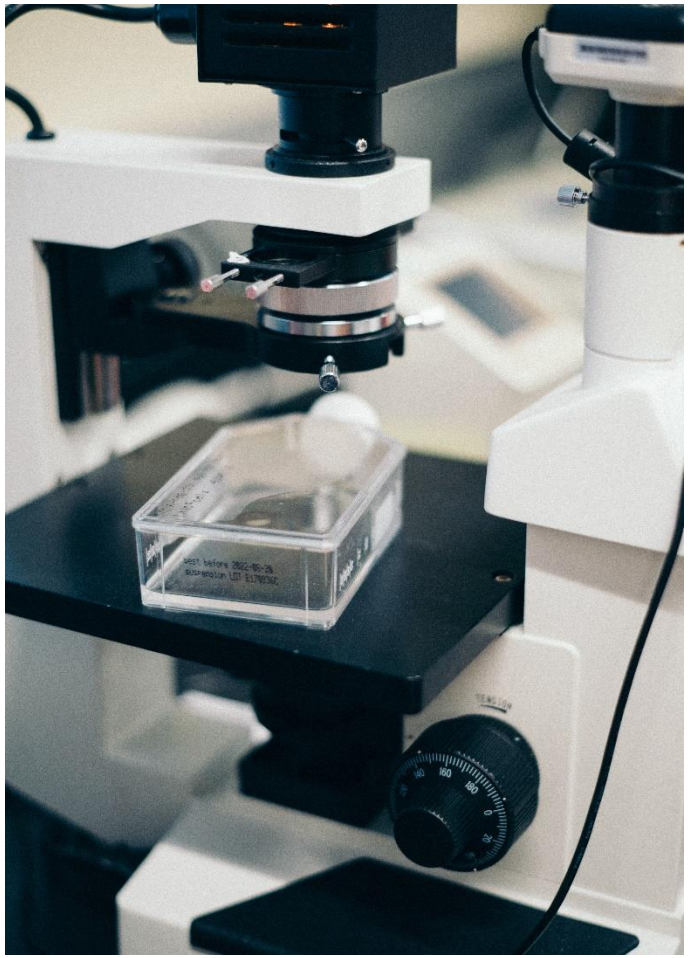
- Documentation Expectations
  - SF-270 Reports / Requests for Payment
    - Duly signed and approved
    - Accurate and reconcile to amounts received
  - SF-425 Reports
    - Properly completed
    - Financial information reconciles to accounting system records
    - Duly signed and approved
    - Submitted timely

Compliance - Equipment Management

- Definition of Equipment
  - Tangible personal property having a useful life or more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization threshold established by the non-Federal entity for financial statement purposes, or $5,000
- Key Requirements
  - 2 CFR 200.439
    - Subject to certain conditions, title to equipment acquired under a federal award vests upon acquisition in the non-Federal entity
    - Maintenance of property records
    - Inventory every two years
    - Internal control system
  - USAID Mandatory Standard Provision – Title to and Use of Property
    - Substantially similar to 2 CFR 200.435
    - Award close out - upon completion of an award, the recipient must submit to the Agreement Officer a property disposition report

Compliance – Equipment Management

- Documentation Expectations
  - Current and accurate equipment listings
    - Must include required information
    - Should reconcile to the expenditure transaction lists
  - Documentation of most recent inventory count
    - Any discrepancies with records should be investigated and cleared
  - Foreign organizations must prepare property disposition reports for all awards which closed during the audit year
    - Disposition reports included within the recipient contracted audit report



Compliance - Subrecipient Monitoring

- Key Requirements
  - 2 CFR 200.332 Requirements for pass-through entities and USAID Mandatory Standard Provision - Subawards
    - Ensure that every subaward is clearly identified to the subrecipient and includes required information
    - Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward
    - Consider specific subaward conditions
    - Monitor the activities of the subrecipient
    - Verify that every subrecipient is audited as required by Subpart F of the Uniform Guidance
    - Respond to results of subrecipient audits and other monitoring
  - Reporting Subawards and Executive Compensation
    - Report all subawards of $30,000 or greater to the Federal Funding Accountability and Transaction Act Subaward Reporting System (FSRS)

Compliance – Subrecipient Monitoring

- Documentation Expectations
  - Documentation of written subrecipient monitoring policies and procedures
  - Document of subrecipient pre-award risk assessments
  - Documentation of subawardee screenings
  - Properly executed subaward agreements
    - Must contain all required information
  - Support for transfers to subrecipients
  - Documentation of annual audit verification
  - Submission of required reporting to FSRS

Compliance – Indirect Costs

- Negotiated Indirect Cost Rate Agreement (NICRA)
  - Provisional rates must be established for the recipient's fiscal years during the term of an award
  - Allowable indirect costs reimbursed at provisional rate, pending establishment of revised provisional or final rates
  - Recipient must submit to the Agreement Officer the proposed final indirect cost rates within the earlier of 30 days after receipt of the audit report or nine months after the end of the audit period

Compliance – Indirect Costs

- De Minimis Indirect Cost Rate
  - Available if the recipient does not have a current negotiated indirect cost rate
  - Calculated as 10% of modified total direct costs
  - Award budget must reflect the de minimis rate if requested by the recipient
  - Once elected, must be used for all Federal awards until an approved NICRA is received
- Indirect Costs Charged as a Fixed Amount
  - May be used if the recipient does not have a NICRA and chooses not to use the de minimis indirect cost rate

Compliance – Indirect Costs

- Documentation Expectations
  - Most recent NICRA agreement, if applicable
    - Drawdowns of federal funds should be based on provisional NICRA rate
  - Calculation of current year actual indirect cost rate
    - Preferable to prepare adjustments for variance between actual and provisional rates on an annual basis, prior to audit
    - Schedule of expenditures of federal awards should reflect indirect costs at actual rate
  - Calculation of the de-minimis rate applied to the Federal awards, if applicable

Audit Wrap Up Considerations

- Review of Draft Report
- Management Responses to Current Year Findings and Recommendations
- Management's Follow up on Status of Prior Year Findings and Recommendations
- Client Representation Letter
- Submission of Final Reports
    - Domestic Organization
        - Data Collection Form and Federal Audit Clearinghouse
    - Foreign Organizations
        - Submission of Recipient Contracted Audit Report Cognizant USAID Operating Unit

Polling Question #3

Which of the following is not a Uniform Guidance compliance requirement applicable to INGOs?

A. *Procurement*
B. *Equipment Management*
C. *Subrecipient Monitoring*
D. *Major Program Determination*

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PPP Loans

PPP loan basics:

1. PPP loan proceeds = debt until forgiven
2. Costs applied to PPP loan proceeds should not be charged to other Federal projects
3. When forgiven, the liability should be recorded at revenue in the period of forgiveness
4. Expenses should be within allowable period
5. Keep good records

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PPP Loans

USAID Memorandum Extending COVID 19 Flexibilities Pursuant to OMB Memorandum M-20-26:

"Allowability of salaries and other project activities" (2 CFR § 200.403, 2 CFR § 200.404, 2 CFR § 200.405)

Recipients may continue to charge salaries and benefits to currently active awards consistent with the recipients' policy of paying salaries (under unexpected or extraordinary circumstances) from all funding sources, Federal and non-Federal. Recipients may charge other costs to their awards as necessary to resume activities supported by the award, consistent with applicable Federal cost principles and the benefit to the award. Prior to incurring such costs recipients must notify the AO and the AOR of these costs. In no circumstances can cost exceed the amount obligated in the award. The Agency will not reimburse any such costs. Recipients must ensure that all costs associated with any potential repatriation, termination and close-out costs are budgeted and available within the obligated amount of the award.

PPP Loans

USAID Memorandum Extending COVID 19 Flexibilities Pursuant to OMB Memorandum M-20-26 (continued):

Under this flexibility, payroll costs paid with the Paycheck Protection Program (PPP) loans or any other Federal CARES Act programs must not be also charged to current Federal awards as it would result in the Federal government paying for the same expenditures twice. Due to the limited funding resources under each federal award to achieve its specific public program goals, recipients must exhaust other available funding sources to sustain its workforce and implement necessary steps to save overall operational costs. Recipients must retain documentation of their efforts to exhaust other funding sources and reduce overall operational costs.

	A			B			C		
INDIRECT COSTS				**INDIRECT COSTS**			**INDIRECT COSTS**		
General and administrative expenses per audited financial statements:				General and administrative expenses per audited financial statements:			General and administrative expenses per audited financial statements:		
Salaries and benefits	$ 2,000,000			Salaries and benefits	$ 2,000,000		Salaries and benefits	$ 2,000,000	
Professional fees	500,000			Professional fees	500,000		Professional fees	500,000	
Occupancy	250,000			Occupancy	250,000		Occupancy	250,000	
Travel	125,000			Travel	125,000		Travel	125,000	
Insurance	75,000			Insurance	75,000		Insurance	75,000	
Postage	12,500			Postage	12,500		Postage	12,500	
Printing	20,000			Printing	20,000		Printing	20,000	
Repairs and maintenance	10,000			Repairs and maintenance	10,000		Repairs and maintenance	10,000	
Supplies	15,000			Supplies	15,000		Supplies	15,000	
Bank charges	10,000			Bank charges	10,000		Bank charges	10,000	
Other	5,000			Other	5,000		Other	5,000	
Total G&A per financials	3,022,500			Total G&A per financials	3,022,500		Total G&A per financials	3,022,500	
Less: unallowable expenses	(7,500)			Less: unallowable expenses	(7,500)		Less: unallowable expenses	(7,500)	
Less: PPP applied to G&A costs	(200,000)			Less: PPP applied to G&A costs	(200,000)		Less: PPP applied to G&A costs	-	
TOTAL INDIRECT COSTS	**$ 2,815,000**			**TOTAL INDIRECT COSTS**	**$ 2,815,000**		**TOTAL INDIRECT COSTS**	**$ 3,015,000**	
DIRECT COSTS				**DIRECT COSTS**			**DIRECT COSTS**		
Program services expenses	$ 15,000,000			Program services expenses	$ 15,000,000		Program services expenses	$ 15,000,000	
Fundraising expenses	250,000			Fundraising expenses	250,000		Fundraising expenses	250,000	
Subtotal	15,250,000			Subtotal	15,250,000		Subtotal	15,250,000	
Plus: PPP applied to G&A costs	200,000			Plus: PPP applied to G&A costs	-		Plus: PPP applied to G&A costs	-	
TOTAL DIRECT COSTS	**$ 15,450,000**			**TOTAL DIRECT COSTS**	**$ 15,250,000**		**TOTAL DIRECT COSTS**	**$ 15,250,000**	
INDIRECT RATE CALCULATION:									
Total adjusted indirect costs	$ 2,815,000	=	**18.22%**	Total adjusted indirect costs	$ 2,815,000	=	**18.46%**	Total adjusted indirect costs	$ 3,015,000	=	**19.77%**
Total adjusted direct costs	$ 15,450,000			Total adjusted direct costs	$ 15,250,000			Total adjusted direct costs	$ 15,250,000		

Get in Touch

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