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Luck of the Audit: The Role of Internal Controls in Audit Preparedness

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Meet the instructors



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Housekeeping

Additional Information

Learning Objective To provide attendees with an overview of the role of internal controls in audit preparedness.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1 CPE Credit	Recommended Fields of Study Auditing
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
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Topics

- Why an Organization Obtains an Audit & Types of an Audit
- What to Expect During an Audit
- Common Audit Findings
 - Basic Financial Statement Audit Findings; IT Related Findings; Single Audit Findings
- Best Practice Recommendations
- Q&A / Closing



Audit Types



Why an Organization Obtains an Audit

- State and/or Federal Legal Requirements
- Apply for Funding from Foundations and Other Entities
- Grantmaker Requirements
- Governance Due Diligence
- Transparency for Donors



Types of an Audit

- Basic Financial Statement Audit
- Single Audit – Uniform Guidance
- Compliance Audit
- Employee Benefit Plan Audit
- Internal Audit



Internal Audit vs External Audit

High-Level Overview

External Audit is designed to opine on the presentation of financial statements in accordance with Generally Accepted Accounting Principles and compliance with applicable framework (Uniform Guidance).

Internal Audits are risk-based audits that focus on a specific scope and objectives and can serve a multitude of purposes (i.e., compliance, regulatory, process improvement, risk mitigation).

Internal Audits place higher emphasis on operations and processes, as opposed to financial information and records

Internal Audit can be a department in the organization and/or an outside provider who, in accordance with IIA Standards, works with management to perform their Internal Audit procedures and reports directly to the Board of Directors on the results (independent and objective).

Internal Audit can assist in preparation for the external audit and internal audit reports/testing can be leveraged in the external audit process

What to Expect During an Audit



Pre-Audit Meeting



Inquiries with Management and Other Firm Personnel



Tests of Account Balances and Financial Transactions



Review of Internal Controls and Policies



Management's Responsibilities for the Financial Statements



Deliverables Upon Completion of Audit

Polling Question #1

Are you still listening?

- A. Yes*
- B. No*

Common Audit Findings



Common Audit Findings

Basic Financial Statement Audit

- Lack of Formal Accounting Policies and Procedures
- Lack of Segregation of Duties
- Audit Readiness and Adjustments Required Throughout Audit Process
- Revenue Recognition Inconsistency
- New Accounting Standards Not Adopted / Implemented



Common Audit Findings

Information Technology Findings in an Audit

- Information Security Policies and Procedures

- [Getting Started with Cybersecurity and IT Risk Management](#)

- [Policies & Procedures Manual](#)

- Access Controls

- Backup, Storage, Retention

- Incident Response

- Cybersecurity Training

- Cyber Risk Management

- [Third Party Risk Management](#)

- Process of analyzing and mitigating risks to your organization by parties other than your organization. Third parties pose a persistent risk as they are often holding data on behalf of the organization. While the data has been transferred to a third party, the organization is still responsible for anything that happens to that data, which makes third-party risk management crucial in reducing the likelihood of data breaches, operational failures, and reputational damage.

Common Audit Findings

Information Technology Findings in an Audit

- Access Controls and Monitoring of Administrator Accounts
 - Defines requirements to monitor the activities of Administrator accounts who can add/create users and make system changes
- Business Continuity and Disaster Recovery Plans
 - Limits the impact and likelihood of unforeseen risk events through identification of key processes/personnel, assignment of backups, and creation of detailed plans to respond to top risk events.
- System Data Flow Diagram
 - Captures the system infrastructure and illustrates the data flow between systems utilized



Common Audit Findings

Uniform Guidance Audit



- Time Tracking and Payroll Allocations
- Procurement Requirements
- Suspension and Debarment
- Subrecipient Management and Monitoring
- Cash Management and Draw Process
- Account Reconciliations and Timeliness of Annual Audit

Polling Question #2

Are you still listening?

- A. Yes*
- B. No*

Time Tracking and Payroll Allocations

Compliance Requirement: Title 2 U.S. Code of Federal Regulations (CFR) Part 200, paragraph 430 “Compensation – personal services” requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed, and that these records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. These records must comply with established accounting policies and practices of the non-Federal entity.

How to Ensure Compliance: Employees complete a timesheet that pertains to each pay period and the timesheet documents the allocation of time worked on departments and projects.

Internal Controls: The Accounting department should prepare and maintain a reconciliation between the program allocations (as documented in the approved timesheets) and the general ledger in order to ensure a full and accurate audit trail of payroll expenditures.

Procurement Requirements

Competitive and Non-Competitive Procurement

Compliance Requirement: Under 2 CFR 200.318, a recipient of U.S Government funds must use their own documented procurement procedures which reflect applicable Uniform Guidance requirements to procure goods and services in order to ensure that all purchases are conducted in a manner that provides full and open competition.

How to Ensure Compliance: The non-Federal entity must ensure their procurement policy is compliant with CFR 200. All staff should be properly trained with respect to the policy to ensure compliance.

Internal Controls: All procurement records for purchases in excess of the threshold should include the following at a minimum: (a) basis for the contractor/goods selected or (b) justification for lack of competition when quotes or competitive bids are not obtained. The conclusion should be clearly documented and accompany the procurement documentation.

Procurement Requirements

Competitive and Non-Competitive Procurement

Sole-source justifications (non-competitive procurement) are most commonly the reason for findings.

Non-competitive procurement can **only be awarded** if one or more of the following circumstances apply:

1. The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (see paragraph (a)(1) of this section);
2. The item is available only from a single source;
3. The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation;
4. The Federal awarding agency or pass-through entity expressly authorizes a non-competitive procurement in response to a written request from the non-Federal entity; or
5. After solicitation of a number of sources, competition is determined inadequate.

Suspension and Debarment

Compliance Requirement: Under 2 CFR 200.213, Non-Federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations 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. The non-Federal entity must verify that the person with whom you intend to do business is not excluded or disqualified.

How to Ensure Compliance: The non-Federal entity should have a policy of how screenings will be performed and how documentation will be maintained in order to demonstrate compliance with government regulations.

Internal Controls: All screenings should be conducted prior to signing a contract or issuing payment. Screenings should also be documented with the date of when the screening was conducted for audit evidence.

Subrecipient Management and Monitoring

Compliance Requirement: Under 2 CFR 200.331 part (b), all pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures to prescribe to each individual subrecipient.

How to Ensure Compliance: The non-Federal entity should have a subaward policy and ensure the risk assessment procedures over all of its subrecipients are performed and documented prior to engagement. Based on these risk assessments, the non-Federal entity should assign a risk level to each, and then determine the monitoring tools to apply based on these risk levels.

Internal Controls: The non-Federal entity should review its subrecipients' financial reports demonstrating use of each advance before advancing more funds, to ensure subrecipients are expending funds appropriately.

Cash Management and Draw Process

Compliance Requirement: Under 2 CFR 200.303, organizations that receive federal funding are required to “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

How to Ensure Compliance: The non-Federal entity should have a formal process over the Federal cash draw down process. All Federal draw downs should be appropriately supported with underlying documentation supporting the amount requested.. Amounts requested should be based on funds previously incurred (i.e. not budgeted costs).

Internal Controls: The non-Federal entity should keep a draw-down schedule that can be reconciled to the amounts requested.

Account Reconciliations and Timeliness of Annual Audit

Compliance Requirement: The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

How to Ensure Compliance: The non-Federal entity should ensure all asset and liability accounts are properly reconciled and agree to the accounting system. The internal records should be reconciled with financial reports submitted to the U.S. Government and other donors.

Internal Controls: All asset and liability accounts reconciliations should be performed on a monthly basis. Detailed reviews/approvals of all supporting schedules (and related financial statements) be performed and contemporaneously documented in the accounting records; any discrepancies or other issues should be resolved in a timely manner.

Best Practice Recommendations



Additional Best Practice Recommendations

- Procurement policy for non-federally funded organizations
- Background checks & credit checks for persons dealing with financial information
- If an INGO – ensure you are performing OFAC checks on international staff
- Review and Approvals of Executive Director / President's Expenses (this includes reimbursements and credit card charges)
- Work with Outside Accountant / CPA



Polling Question #3

Are you still listening?

- A. Yes*
- B. No*

Questions?

Contact Us



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