

Audit Preparation

The auditors will be performing both a standard audit of financial statements and performing additional procedures required by Governmental Auditing Standards. The standard audit is designed to answer the question “do the organization’s financial statements present fairly the financial position of the organization and the changes in its net assets and cash flows for the year in accordance with generally accepted accounting principles?” The goal is not to determine whether every single number in your accounting records is correct. Auditors generally focus on Balance Sheet accounts and the largest sources of income and types of expenses.

Typically, auditors will provide a preliminary checklist requesting certain items. Respond to the auditors in a letter, provide answers to the questions and attach the requested documents. Before the audit begins, review responses and update the auditors if anything has changed or the agency has located additional information.

The auditors will also provide a checklist of what the agency will need to have available the first day of the on-site visit. Several items may be pulled together prior to year-end entries being completed. Others may want to prepare items after year-end entries are completed.

Financial procedures; including the agency cost allocation plan: provide these documents that are used during the year. If revisions were made either to satisfy the state after a monitoring visit or to revise outdated documents, provide those revised documents to the auditors as soon as they are available. Be sure to show the auditor the monitoring report and any follow-up correspondence.

In addition to the background information listed on both of the auditor checklists, creating a notebook is a good practice and can help get a head start on the process. However, do not go to a lot of trouble if the agency is not clear about what the auditor wants. Contact the auditor for clarification of what will be requested.

Gathering documentation of funding ahead of time with online payment systems is easy. Anything the agency can do to make the fieldwork go smoother generally works to the Subrecipient’s advantage.

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Organize the notebook in sections for Assets, Liabilities, Net Assets, Revenues, and Expenses and follow the numbering of your GL. The auditors will focus on the Balance Sheet accounts, the grant revenue amounts, and the largest expense accounts, particularly payroll and benefits related accounts.

In preparing for auditors, a Subrecipient may want to look at variances between the current year and prior year in major revenue and expense accounts. Auditors will identify programs and ask about significant changes from year-to-year.

The auditors will take the lead in dealing with the financial information for any separate entities which may be subsidiaries. The agency will want to check with the auditor to determine if there is any prep work needed for these separate entities. Review the previous auditor report as it may provide useful explanations.

Subrecipients could be subject to a state Single Audit when they receive more than \$750,000 in state awards. (TAC Title 10 Part 1 Chapter1, Subchapter D). The auditors must perform the procedures required for a Single Audit including testing and reporting on compliance with the requirements for each major federal program. As a Subrecipient, you are to have your financial statements prepared, including Schedule of Expenditures of Federal and State Awards. Many auditors still prepare the financial statements, but a Subrecipient must have someone who understands and takes responsibility for the financial statements. See article at <https://www.grfcpa.com/resource/auditor-responsibilities/>

Reexamine the Schedule of Expenditures of Federal and State Awards on previous audits to review the awards that were identified as including state and federal dollars. The schedule presents your direct federal awards received through the State of Texas and other intermediary entities, which included federal funds. Financial Statements required, in addition to the Schedule of Expenditures, include Statement of Activities, Statement of Financial Position, Functional Expense, Cash Flow and those TDHCA budget to actuals. Subrecipients with potential issues or lack of expertise may want to hire an accounting firm to prepare financials ahead of the auditor coming.

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To assist the auditors, inform them if the agency did not receive any of the awards noted in the previous year's audit for this current year. Provide the auditors a list of any additional awards received in the current year that included federal funds (even if they were awarded through an intermediary entity). As part of audit prep, be sure staff can easily locate the grant agreements/contracts for each of the funding sources, including any amendments or extensions that were awarded to cover the year's activities.

The Schedule of Findings and Questioned Costs for year-end can be located at the end of the prior year's audit report. Noted will be what programs the auditors identified as a "major program". Auditors are required to perform more intensive testing on major programs as part of the Single Audit. If the Subrecipient receives grants from multiple federal and state grantors, there may be more than one major program. For Subrecipients with more than one major program, the testing can be rotated and not every major program has to be tested every year, this is a judgement call on the part of the auditor. In preparation for the audit, it would be helpful to check back in with the auditor to see which program or programs they will be focusing on. They are required to test not only the financial information recorded but also the underlying client records to determine whether eligibility was properly determined, and services were properly documented, etc. To accomplish this testing, auditors use sampling techniques (they do not have time to look at every transaction or record).

The previous audit offers a preview of what the agency is trying to accomplish as how to prepare for an upcoming audit. The agency will want the auditors to be able to say "no" to all the questions about potential problems in Internal Controls and to end up with no findings or questioned costs.