

Best Practices

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ARRA Funding Leads to Big Changes: Accountability and Transparency Stressed in New Federal Single Audit Guidelines



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By Julia Debes - Public Affairs Staff Writer

Entities in Ohio received more than \$7.5 billion between February 17, 2009 and March 31, 2010 in contracts, grants and loans through the American Recovery and Reinvestment Act of 2009 (ARRA), according to Recovery.gov. As a result, many state and local government entities qualified for a single audit for the first time in fiscal year 2009 or fiscal year 2010.

New federal guidelines are adding to the complexity of the single audit process for state and local governments that receive any type of federal funding, not just stimulus dollars, according to Marnie Carlisle, senior audit manager with the Ohio Auditor of State's Accounting & Auditing Support Section.

Specifically, the Office of Management and Budget (OMB) and the Office of the President of the United States each issued new guidance on the single audit process this past spring, including stricter enforcement of filing

deadlines, increased penalties for late filing and new requirements for sub-award recipients of federal funds.

A single audit, which combines an annual financial audit with additional audit coverage of federal funds, is required for any entity that expends more than \$500,000 in federal awards (direct or indirect) in a fiscal year.

According to a May 2010 report by the Government Accountability Office (GAO), single audits "provide a source of

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Dear Colleague,

This new edition of *Best Practices* is “hot off the press,” as the old saying goes. Except that it isn’t “off the press” for a growing number of our readers. Since early last year, more and more of you have opted to receive this quarterly newsletter electronically, by e-mail. There’s no press, no paper and no postage involved. That results in a considerable cost savings for the Auditor of State’s office and an added convenience for our clients – meaning, ultimately, a savings for Ohio taxpayers *and* the environment.

Many readers chose to receive the paperless, electronic edition from the very start. Dozens of others make the switch each month. Most decide to “subscribe” to the free e-mail edition, while others visit our website (www.auditor.state.oh.us) to view the electronic *Best Practices* as a web page or to download the current issue in a PDF file. Website visitors can also find an archive of past editions. While we continue to print and mail a paper edition for those who prefer that format, I encourage everyone to give the electronic edition a test.

As we begin preparing the next *Best Practices* edition for 2010 – the final issue in my term as Auditor of State – I encourage you to send your suggestions for topics and issues you would like to see covered. Drop an e-mail message to bestpractices@auditor.state.oh.us. We enjoy receiving your suggestions and comments about *Best Practices*, because reader input helps us improve the value and impact of each issue.

Sincerely,

Mary Taylor, CPA
Ohio Auditor of State

ARRA Funding Leads to Big Changes

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information on internal control weaknesses, noncompliance with laws and regulations and the underlying causes and risks.”

“This will certainly have a dramatic effect on state and local governments”

While single audits are a thorough examination of an entity’s receipt and use of federal funds, the single audit process has “changed vastly since the adoption of the Recovery Act,” Carlisle said. Additionally, she stressed many of the new guidelines apply to all federal funds, not just ARRA disbursements.

Existing federal guidance in Section 320 of OMB Circular A-133 directs entities to submit single audits to the Federal Audit Clearinghouse within 30 days after receipt of an auditor’s report or nine months after the end of the audit period. However, federal agencies have routinely granted extensions to entities.

As a result of those extensions, a recent alert published by the American Institute of Certified Public Accountants’ Government Audit Quality Center indicated, “History has shown that generally more than

20 to 25 percent of the single audits are filed later than nine months after the end of the audit period.”

New OMB guidelines are intended to eliminate that practice. A March 22, 2010 OMB memorandum directed federal agencies to not grant any extensions for recipients of ARRA funds to file their mandated single audit “due to the importance of the single audits and the reliance of federal agencies on the audit results to monitor the accountability of Recovery Act programs.”

“Accountability and transparency are the key guiding principles for all federal funding.”

“This will certainly have a dramatic effect on state and local governments,” Carlisle said, explaining the new no-extension policy that became effective immediately for all agencies.

One significant consequence is that to qualify as a low-risk auditee, both of the prior two years’ audits must have been submitted to the Federal Audit Clearinghouse by the due date and meet the other requirements of OMB Circular A-133.

“If state and local governments do not file timely, they will not qualify as a low-risk auditee in the subsequent audit, meaning we will have to audit 50 percent of their federal funding rather than 25 percent,” Carlisle said. “This will increase audit time as well as audit costs for entities that have previously qualified as low-risk auditees.”

Other federal guidelines dictate stern penalties for not meeting the filing deadline. An April 6, 2010 executive order directs federal agencies to “further intensify their efforts to improve reporting compliance by prime recipients of the Recovery Act, wherever authorized and appropriate, by terminating awards; pursuing measures such as suspension and debarment; reclaiming funds; and considering, initiating, and implementing punitive actions.”

Carlisle cautions entities not only to fulfill their own obligations in completing the single audit in a timely manner, but also to make certain state auditors have the information needed to complete regular financial audits of the entity with enough time to meet the strict deadline.

(For more information about filing single audits, please refer to Marnie Carlisle’s article in the Winter 2009 edition of *Best Practices*.)

The influx of new guidelines indicates the federal government is paying close attention to how state and local governments receive and spend federal funds.

In addition to strict enforcement of the filing deadline, the April 6, 2010 OMB memorandum also outlined new reporting

requirements for sub-award recipients of any federal program. Beginning on October 1, 2010, sub-award reporting will be required for any new grants, contracts or task delivery orders awarded after that date for any entity that receives more than \$25,000 in grants or contracts.

To date, federal agencies have only reported contract or award information at the prime level. However, according to the memorandum, “Recipients,

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Five Questions for Government Entities to Consider

Information courtesy of the American Institute of Certified Public Accountants. Factsheets can be found on their website: www.aicpa.org/publications

1. Does the entity already contract for a single audit?
 - a) If yes, are auditors aware of increased funding as a result of the ARRA? (These funds may change the scope of the audit)
 - b) If not, has management determined if the ARRA funds are enough to trigger a need for a single audit? (These audits extend beyond financial statement review)
2. Does the entity have the accounting system capability to maintain separate accountability for the ARRA funds?
3. Has the entity assessed reporting requirements?
4. What controls, processes and project management have the entity allocated to track usage and reporting of ARRA funds received?
5. Has management assessed risk associated with its new and/or expanded programs under the ARRA, and how are risks being mitigated?

SPOTLIGHT:

Copier



When CBS aired a segment on *60 Minutes* regarding copy machine security, government agencies across the country were put on notice to secure confidential information that might otherwise fall into the wrong hands. The report outlined how a copier can maintain information on its hard drive long after an agency has finished using the machine. That's a scary proposition for every public organization that has reason to copy confidential information.

Copiers manufactured after 2002 generally have a hard drive device that stores images of every document that is copied. For multipurpose devices, this also includes documents that are scanned, printed, faxed or e-mailed from a copier machine.

It is first important that you ensure your agency is disposing of unwanted equipment in an approved manner.

When it comes time to salvage machines, these hard drives can become gold mines for individuals seeking out confidential information. The

images stored on hard drives can be removed, so when an agency retires a machine from service, they may be releasing thousands of documents without ever considering the potential for misuse.

This is an alarming proposition for any government agency or official, but there are ways to protect both yourself and your office from unknowingly distributing documents or information that should be kept confidential. Each agency is different and use of copier machines may vary. Because of this, there is no set best practice to safeguard against images being removed from copier hard drives. However, there are some practices that can help you assess your

organization's risk and ensure the policy you have in place is right for your particular situation.

There are multiple options available to public offices for removing equipment based on Ohio Revised Code regulations. It is first important that you ensure your agency is disposing of unwanted equipment in an approved manner.

An "out of sight, out of mind" security philosophy might be a tempting proposition, especially if added costs are avoided.

Once you have determined how you will remove an old copier machine, you can then determine how best to protect information stored on the hard drive.

The following are a few options that may be available to you:

- If you decide to return a copier machine to the manufacturer, either for trade-in value or because a lease term has ended, contact

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When a record is not public:

It is no surprise that Ohio maintains a strong commitment to open government. Each year the offices of the Auditor of State and Attorney General release an updated manual on open records and open meetings. However, this commitment to giving the public access to records comes with the responsibility for public officials to secure confidential information. Below are some examples of exceptions to the required release of public records.

- Residential information for peace officers, parole officers, prosecuting attorneys, assistant prosecuting attorneys, correctional employees, youth services employees, firefighters, EMTs or investigators with the Bureau of Criminal Identification and Investigation
- Medical records that are generated and maintained in the process of medical treatment
- Social security numbers
- Taxpayer records maintained by the Ohio Department of Taxation and by municipal corporations
- LEADS, NCIC or CCH criminal record information
- Information or records that fall under attorney-client privilege

For complete information on what may and must be kept confidential, see the *2010 Sunshine Laws Manual*, available on the Auditor of State's website www.auditor.state.oh.us.

Personal Information Systems Act

Many state agencies maintain databases that contain confidential personal information. In the past, these databases have been susceptible to unauthorized use by people within agencies. As you may recall, the Ohio Department of Job and Family Services had a very public instance when a database was accessed to obtain information on "Joe the Plumber" for unauthorized reasons.

Because these systems can be vulnerable, the Ohio Revised Code now has a section outlining the safeguards state agencies must take to protect these databases. Below are a few elements that must be in place:

- Criteria stating what employees can access a database and what supervisors can authorize access
- A password or other authentication method for all data that is kept electronically
- A mechanism for documenting who accesses information on the system
- A procedure to notify individuals who have had their personal information accessed for invalid reasons

For more information on how confidential information is being protected, visit <http://privacy.ohio.gov/government/>.

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- Explanation of new state or federal policies that affect your fiscal management efforts
- Tips and strategies worth sharing with others

We value your input, critiques and suggestions, which will help us make *Best Practices* an even better, more useful publication for our clients.

Send your comments and suggestions to:

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ARRA Funding Leads to Big Changes

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sub-recipients, contractors and sub-contractors should be prepared to report on applicable grants, contracts and orders awarded.”

Sub-award reporting will now be required within 30 days after a sub-grant or sub-contract is made and after any subsequent changes. All reporting will be through a single website, USAstending.gov, which is intended to meet federal transparency requirements.

USAstending.gov is an existing website that has been utilized since January 2008 to report prime recipient awards. However, it is being retooled to include the sub-award reporting and to increase the transparency of federal funding.

Carlisle explained that criteria for reporting to USAstending.gov will be similar to reporting requirements for Recovery.gov, but there will be some differences. Specific reporting guidelines were released by OMB on July 30, 2010.

By definition in the memorandum, a sub-award is defined as “a monetary award made as a result of an award to a grant recipient or contractor to a sub-recipient or sub-contractor respectively. The term includes first-tier sub-awards and does not include awards made by a first-tier sub-recipient or sub-contractor to a lower tier sub-recipient or sub-contractor.”

To illustrate, Carlisle provides the following example of a first-tier sub-grant.

“The U.S. Department of Energy awards a grant to the State of Ohio and the State of Ohio awards a sub-grant to the city of Columbus. In this example, the Department of Energy currently submits information to USAstending.gov on the Federal award to the State of Ohio. The new requirement to collect information on sub-awards will now require the submission of information on the sub-grant from the State of Ohio to the city of Columbus and subsequent posting of that data onto USAstending.gov.”

With Recovery.gov reporting requirements, state agencies in Ohio are responsible for reporting sub-recipient data into the federal website. Sub-recipients are only required to provide state agencies with information needed for the report. Carlisle said she expects the process to be similar with the new USAstending.gov reporting.

The influx of new guidelines indicates the federal government is paying close attention to how state and local governments receive and spend federal funds. As a result, all entities should continue to be vigilant about monitoring new guideline requirements to ensure their compliance.

After all, as Carlisle explained, “Accountability and transparency are the key guiding principles for all federal funding.” ■

Copier Confidential

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the vendor to inquire about their privacy policy. Multiple vendors have a policy in place that outlines how sensitive information is wiped from the hard drive when a machine is returned. Determine if your vendor has a policy in place, and ask questions to confirm it is being followed.

- Determine if your copier can be equipped with a security erase function. This function is available on newer machines, and in some cases can be added to machines already in use. The security erase function allows a public office to erase the hard drive in-house without specialized skills.
- Contract with an outside technician to wipe the hard

drive before you dispose of a machine. This can be a good option for offices that send equipment to salvage. By choosing this option, the machine has been stripped of sensitive data before it leaves the office.

- Ask your vendor if they are able to physically remove a hard drive from the device. If this is possible, you can retain the storage device and dispose of it as you see fit.

As you upgrade copy machines in your office and invest in the purchase or lease of new machines, ask your vendor questions about machine security. This is a proactive step you can take to identify what security options are available and best fit the needs of your office.

An “out of sight, out of mind” security philosophy might be a tempting proposition, especially if added costs are avoided but confidential information can remain on equipment long after it’s out of your control. A little added effort and expense now can spare your organization from a big headache later. ■

Best Practices

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Web Exclusive:

Resources and Responsibilities:

Ohio Auditor of State's Office provides assistance with ARRA requirements

If the comic book hero Spider-Man was a certified public accountant rather than a science nerd, his motto might have been, “*With great resources comes great responsibility.*”

The motto certainly rings true for a large number of local governments that continue to rely on funds from the American Recovery and Reinvestment Act of 2009 (ARRA).

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