

Understanding Audits and Financial Statements

Participants will be divided into groups based on the number of participants (each table could potentially be a group). Each group will review the following; discuss each implication and make recommendations as appropriate for handling or correcting these issues or situations.

1. The Executive Director, David Johnson, received an e-mail from an accounting firm saying that the organization has been selected for an audit and they would like to begin the audit one month from the date of the e-mail. Mr. Johnson is new to the organization since he has been working there for only 3 months. How should he respond to the auditor and what should be his next steps?

SUGGESTED ACTIONS:

- I. **Mr. Johnson should begin a pre-audit assessment of the organization to:**
 - a. **Reconcile the FFR and other financial reports to the accounting records;**
 - b. **Perform a sample testing of documentation to ensure they adequately support expenditures; and**
 - c. **Ensure policies and procedures are up-to-date.**
 - II. **Contact the accounting firm and arrange a mutually agreeable date for the start of the audit.**
2. The Program Director of "Save the Planet" came across some paid invoices for computers, iPads and other electronics that were paid with the organization's funds, which she knew were not needed for accomplishing the program activities. She reported it to the Executive Director, but upon subsequent inquiry no internal investigation was performed to date. The Program Director is in a quandary and does not know what to do. What would be your advice and why?

SUGGESTED ACTIONS:

- I. **The Program Director has an obligation to report suspected fraud, waste and abuse to the Office of the Inspector General, particularly if it was obvious that the Executive Director was not inclined to follow-up to investigate the suspected impropriety.**
3. You overheard the Accounting Manager talking with the Executive Director about the financial status of the organization. The Executive Director said "Even though the organization's Net Assets have been negative for the past 6 years, it's nothing to worry about because we are a non-profit organization and don't have to worry about making a profit." Based on that statement, do you believe that he is correct? Explain why.

SUGGESTED ACTIONS:

- I. **Even though the mission of a non-profit organization is not typically aligned with earning profits but rather to achieve a vision based on the organization's mission, the organization should have adequate resources to facilitate its stated objectives. Therefore, excess revenues in a single year should be put in a reserve for "lean" periods. A continued trend of negative losses or expenditures being greater than revenues will gradually erode the organization's ability to achieve its mission.**

4. The Little Program has several affiliates that they have an agreement with related to its CNCS grants, which required each affiliate receiving \$100,000 for each program year. During a staff meeting, the Organization's President indicated these affiliates receive funding from other sources so the funds passed through to them is "a drop in the bucket" of the total funding that they receive; therefore, the major funder for each organization will be responsible for following up on OMB A-133 Audit reports. What would you say to address that statement?

SUGGESTED ACTIONS:

- I. **Organizations that pass though Federal funding to other subgrantees are responsible for the following:**
 - a. **To provide the CFDA number to subgrantees so that the funding source can be tracked;**
 - b. **Provide information to subgrantees that an A-133 audit is required if their total expenditure in their fiscal year is over the \$500,000 threshold; and**
 - c. **Review the A-133 report of subgrantees that were audited to determine if there were findings that directly or indirectly relate to their funding source.**

TOP SECRET