Grant Audits:

What Your For-Profit Entity Needs to Know

PRESENTED BY

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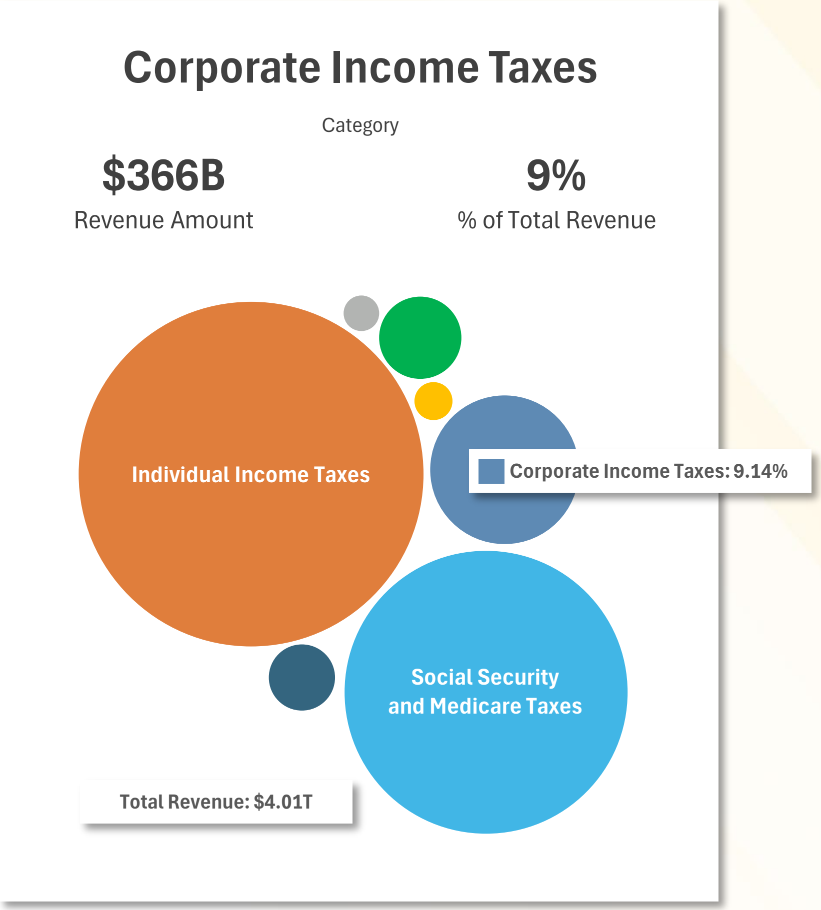
Objectives

- ✓ Overview of Current Federal Funding Environment
- ✓ Grant Audits
  - › How to prepare
  - › How to know if you need one
  - › What to expect
- ✓ Program Clusters
  - › Research and Development Cluster
- ✓ Internal Controls Over Compliance Requirements
- ✓ Top 10 Grant Audit Issues

Current Environment

How is the Government Funded?

- Individual Income and Payroll Taxes
  - Close to 85% of funding
- Corporate and Excise Taxes
  - Decreasing in percentage of total revenues since 1950
- Tariff Revenue Grew Exponentially in 2025
  - Still a small percentage of total government funding



How Does the Government Fund Others?

- Executive Branch Implements Congress-Approved Budget
- Office of Budget and Management (OMB) Oversees
  - Contracts
    - Procurement mechanisms
  - Grants
    - Discretionary – competitive basis
    - Earmark – specific allocations
    - Formula – non-competitive funding
  - Cooperative Agreements
    - Legal contracts that involve a public purpose
    - Substantial government agency involvement in the project

Blanket Federal Funding Freeze

- OMB January 2025 Blanket Federal Funding Freeze
- Court Challenges and Legal Battles
- Mass Layoffs in Many Government Agencies
- DOE Grants = More Scrutiny and Administrative Challenges
- Cost-Reimbursement Payment Delays

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

January 27, 2025

M-25-13

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Matthew J. Vaeth, Acting Director, Office of Management and Budget

SUBJECT: Temporary Pause of Agency Grant, Loan, and Other Financial Assistance Programs

The American people elected Donald J. Trump to be President of the United States and gave him a mandate to increase the impact of every federal taxpayer dollar. In Fiscal Year 2024, of the nearly $10 trillion that the Federal Government spent, more than $3 trillion was Federal financial assistance, such as grants and loans. Career and political appointees in the Executive Branch have a duty to align Federal spending and action with the will of the American people as expressed through Presidential priorities. Financial assistance should be dedicated to advancing Administration priorities, focusing taxpayer dollars to advance a stronger and safer America, eliminating the financial burden of inflation for citizens, unleashing American energy and manufacturing, ending "wokeness" and the weaponization of government, promoting efficiency in government, and Making America Healthy Again. The use of Federal resources to advance Marxist equity, transgenderism, and green new deal social engineering policies is a waste of taxpayer dollars that does not improve the day-to-day lives of those we serve.

Today's Environment

- **Still Much Uncertainty!**
- One Big Beautiful Bill Act (OBBBA) signed into law July 4, 2025
  - Decrease federal tax revenue by $4.5 trillion from 2025 through 2034
  - Permanent extension of the 2017 tax cuts
  - Provide additional tax cuts and changes to the tax code
  - Reduce federal spending
- Must Follow Compliance Requirements
  - Generally, grant audits are required for for-profit entities that expend more than $750,000 ($1 million for FYs starting on or after October 1, 2024)

Polling Question #1

What are your projected federal expenditures for your current calendar or fiscal year-end?

A. $750,000 or less
B. Between $750,000 and $1 million
C. Greater than $1 million

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Overview of Grant Audits

Why Are Grant Audits Necessary?

- Accountability and Transparency
  - Filed with granting agency
  - Ensure funds are being used as intended
- Compliance
  - Ensure entity adheres to regulations and guidelines
- Risk Mitigation
  - Examination of financial records and controls, which may lead to identification of mismanagement (including fraud)
  - Prevent fraud
- Process Improvement
  - Strengthening of internal controls

What Do Grant Audits Assess?

- Entity's use of grant funds to ensure compliance, accountability and proper use of resources
  - Eligibility and compliance
  - Financial management
  - Allowable expenses
  - Documentation and recordkeeping
  - Internal controls and risk management

How Do You Determine If a Grant Audit is Necessary?

- Triggered by Amount of Federal Funds Expended
  - Expenditure threshold
    - For-profit entities that expend federal funds in excess of $750,000 in their fiscal year
    - Threshold increases to $1million for awards issued and fiscal years beginning on or after October 1, 2024
- Types of Federal Funds
  - Includes direct grants and pass-through funds
- Due Date
  - Nine months after entity's year-end

What Audit Reports Are Issued?

- Need Independent Auditor with Credentials to Perform Audits in accordance with Government Auditing Standards
- Independent Auditor's Report
  - "Financial statements" = "Schedule of expenditures of federal awards"
  - In accordance with:
    - Generally accepted auditing standards
    - Government Auditing Standards
    - Uniform Guidance
- Independent Auditor's Report on Compliance for a Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Schedule of Expenditures of Federal Awards

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2024

Federal Grantor/Pass-Through Grantor/Program Title	Identifying #	Assistance Listing #	Passed Through to Subrecipients	Federal Expenditures
Research and Development Cluster				
United States Department of Energy				
Conservation Research and Development	[redacted]	81.086	$ -	$ 560,351
Advanced Research Projects Agency - Energy	[redacted]	81.135	192,895	1,254,546
Clean Energy Demonstrations	[redacted]	81.255	-	81,588
Total United States Department of Energy and Research and Development Cluster			$ 192,895	$ 1,896,485

Schedule of Findings and Questioned Costs

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Schedule of Expenditures of Federal Awards

Type of auditor's report issued:			Unmodified	
Internal control over financial reporting:				
Material weakness(es) identified?	______	Yes	√	No
Significant deficiencies identified not considered to be material weaknesses?	______	Yes	√	None
Noncompliance material to the Schedule of Expenditures of Federal Awards?	______	Yes	√	No

Federal Awards

Internal control over the federal program cluster:				
Material weakness(es) identified?	______	Yes	√	No
Significant deficiencies identified not considered to be material weaknesses?	______	Yes	√	None
Type of auditor's report issued on compliance for the federal program cluster:			Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, section 910.516?	______	Yes	√	No

Identification of the federal program cluster:

Assistance Listing Numbers	Name of Federal Program or Cluster
81.086, 81.135, 81.255	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:			$ 750,000	
Auditee qualified as low-risk auditee?	______	Yes	√	No

SECTION II - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Example Findings

- Questioned Costs
  - Unsupported or unallowable
  - Costs incurred outside the period of performance
  - Overstated or excess compensation
  - Inappropriate use of cost pools
- Internal Control Deficiencies
  - Lack of segregation of duties
  - Inadequate recordkeeping and documentation
  - Insufficient monitoring of subrecipients
  - Ineffective budget management
- Compliance and Programmatic Issues
  - Noncompliance with specific requirements
  - Failure to meet reporting deadlines
  - Inaccurate or inconsistent reporting

What Are the Key Elements of Findings?

- **Identification** of Program and Award
- **Criteria** or Specific Requirement
- **Condition** Found (including facts supporting the deficiency)
- Statement of **Cause** Identifying Reason or Explanation
- Statement of **Effect** (impact of difference between condition and criteria)
- Known **Questioned Costs** and Computations
- **Evaluation** of Prevalence and Consequences
- **Recommendations** to Prevent Future Occurrences
- **Views** of Responsible Officials of Auditee

Example Finding

2024-001 - INTERNAL CONTROLS OVER PREPARATION OF SCHEDULES OF EXPENDITURE OF FEDERAL AWARDS

CONDITION: During audit procedures of the December 31, 2024 Schedule of Expenditures of Federal Awards (SEFA) prepared by management, it was noted that controls over preparation of the SEFA were not properly designed resulting in significant auditor involvement in the reporting of two material Federal expenditures.

CRITERIA: The Code of Federal Regulations (CFR) Section 910.510(b) states in part, "The auditee must also prepare a schedule of federal expenditures for the period covered by the auditee's consolidated financial statements which must include the total Federal awards expended as determined in accordance with 910.502."

CAUSE: Internal controls over preparation of the SEFA are not designed effectively to ensure completeness and accuracy of the SEFA.

Example Finding

EFFECT: As a result of the condition noted above, significant auditor involvement in the preparation of the SEFA was necessary to properly report federal expenditures in the correct period.

RECOMMENDATION: It was recommended that management review current internal controls over preparation and tracking of federal expenditures to ensure that all federal awards are captured and reported in the correct period and that internal controls are properly to detect and correct errors to the SEFA.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS: We acknowledge that a SEFA is to include accurate, current, and complete disclosure of the financial results of each federal award or program. As such, we are instituting a quarterly identification of all government awards secured in the quarter with a verification of those involving any federal funding. Once verified, the award's Assistance Listing Number, federal agency and program description will be added to a SEFA control schedule and monitored to ensure that all major federal programs are noted. Annual cash amounts will be tracked throughout the year and summarized at year-end prior to release to the outside auditors for review.

Footnotes

- Minimal (compared to financial statement audit)
- Basis of Presentation of Schedule of Expenditures of Federal Awards
  - Period covered
  - In accordance with Uniform Guidance
  - Presents a portion of the operations of the entity only
- Summary of Significant Accounting Policies
  - Cash or accrual basis of accounting
  - Elected to use or not to use the 10% *de minimis* indirect cost rate

Polling Question #2

Have you had a grant audit requirement in the past?

A. Yes
B. No
C. Unsure
D. Not in the past, but expect it for the future

Preparing for Grant Audits

Read the Grant Agreement

ASSISTANCE AGREEMENT

1. Award No.	2. Modification No.	3. Effective Date	4. CFDA No.
[redacted]	0001	10/10/2023	81.135

5. Awarded To	6. Sponsoring Office	7. Period of Performance
[redacted]	Advanced Research Projects AR-1 U.S. Department of Energy 1000 Independence Avenue, SW Washington DC 20585	07/28/2022 through 07/27/2025

8. Type of Agreement	9. Authority	10. Purchase Request or Funding Document No.
☐ Grant ☒ Cooperative Agreement ☐ Other	42 USC 7256 42 USC 16538	

11. Remittance Address	12. Total Amount	13. Funds Obligated
[redacted]	Govt. Share: $3,594,384.00 Cost Share : $447,982.00 Total : $4,042,366.00	This action: $0.00 Total : $3,594,384.00

14. Principal Investigator	15. Program Manager	16. Administrator
	[redacted] Phon[redacted]	Advanced Research Projects Agency - Energy (ARPA-E) U.S. Department of Energy AR-1 1000 Independence Avenue, SW Washington DC 20585

Document Policies and Procedures

- Capitalization/Equipment Management
- Cost Allocation
- Allowable/Unallowable Costs
- Cash Management/Drawdown
- Subrecipient Monitoring
- Timekeeping
- Procurement (more in depth)

Procurement

- Procurement Policies and Procedures - written and consistently applied
- Full and Open Competition
- Procurement Methods (micro, small purchases, sealed bids, etc.)
- Cost or Price Analysis if Purchase Above $250,000
- Detailed Records and Documentation
- No Conflicts of Interest
- Domestic Preferences
- Debarment and Suspension

Train Your Staff

- All Staff Involved in Grant Process
  - Grant requirements
  - Policies and procedures
- Federal Agencies May Have Online Courses/Self-Guided Videos
- Professional Organizations

FEDERAL GRANTS MANAGEMENT
TRAINING SERIES

Properly Account for Grant Expenditures

- Track Expenses
  - Categorized based on nature
  - Direct expenditures
  - Indirect expenditures
    - Allocation
- Payroll
  - Direct and indirect categories
  - Timesheets detailing portion of hours worked on each project or activity
- Accounting Software
- Documentation and Support

Grant Expenses - Challenges

- Tracking Indirect Costs and Allocations
- Ensuring No "Double Dipping"
- Cash versus Accrual
- Multiple Budget Periods
- Capacity and Technological Constraints

Program Clusters

Overview

- Grouping of Related Programs within a Larger Grant or Funding Scheme
- Allows for Streamlined Compliance Requirements
- Identified and Listed in Part 5 of Annual OMB Compliance Supplement
- Examples
  - Research and Development (R&D)
  - Student Financial Aid (SFA)

R&D Cluster

- Unique Among Other Programs and Clusters
  - Assistance Listing Numbers (ALNs) are less relevant
  - An award is determined to be research or development based on the substance and nature of the award
  - Certain agencies have declared their awards to be considered R&D (NIH and NSF)
  - Composition of the cluster could be one award from a single agency or many awards from several
  - ALNs are secondary in R&D consideration; not all awards/contracts get assigned an ALN
  - Federal government sponsors R&D activities under a variety of types of awards (grants, cooperatives and contracts)
- Understanding If Award is R&D is Critical for SEFA Preparation and in Audit Determination

R&D Cluster

- Research
  - A systematic study directed toward fuller scientific knowledge or understanding of the subject studied
- Development
  - The systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and process
- R&D
  - All research activities and all development activities performed by recipients and subrecipients
- Substance/Nature of Award Must be Evaluated to Conclude if R&D Award

Polling Question #3

Do you have program(s) that would fall under the R&D Cluster?

A. Yes

B. No

C. Unsure

Internal Controls Over Compliance

Overview

- Purpose
  - Provide assurances company is in compliance
  - Prevent and detect non-compliance
  - Promote responsible stewardship
- Effects on Grant Audits
  - Evaluation and testing
  - Impact on audit scope
  - Reporting findings
- Components of Internal Control
  - Control environment
  - Risk assessment
  - Control activities
  - Information and communication
  - Monitoring activities

Auditor's Consideration of Internal Controls over Compliance

- Report on Internal Control over Compliance
- Auditors are required to obtain an understanding of the company's internal control over compliance relevant to the audit in order to
  - Design audit procedures that are appropriate in the circumstances
  - Test and report on internal control over compliance in accordance with the Uniform Guidance

Testing Controls

- Auditors Must Test Internal Controls Over Compliance
  - Entity-level
  - Grant program
- Entity-Level Controls
  - Control environment
  - Risk assessment
  - Information and communication
  - Monitoring

Testing Controls

- Control Environment
  - Demonstrate commitment to integrity and ethical values
  - Exercise oversight responsibility
  - Establish structure, responsibility and authority
  - Demonstrate commitment to competence
  - Enforce accountability
- How Do Auditors Test?
  - Code of ethics and conflict of interest policies
  - Employee handbook
  - Board meeting minutes
  - Corporation organization chart
  - Performance evaluations

Testing Controls

- Risk Assessment
  - Define objectives and risk tolerances
  - Identify, analyze and respond to risks
  - Assess fraud risk
  - Identify, analyze and respond to change
- How Do Auditors Test?
  - Risk management policies and procedures
  - Strategic plan and benchmarking
  - Board meeting minutes

Testing Controls

- Information and Communication
  - Use quality information
  - Communicate internally
  - Communicate externally
- How Do Auditors Test?
  - Maintenance of grant awards/ contracts and external communications from federal and pass-through agencies
  - Internal communications – in-person and electronic
  - External communications – correspondence with grantors; report submissions

Testing Controls

- Monitoring
  - Perform monitoring activities
  - Evaluate issues and remediate deficiencies
- How Do Auditors Test?
  - Policies and procedures in place to monitor compliance with federal grants
  - Procedures to respond to findings (internal or external)

Testing Controls

- Control Activities Over Direct and Material Compliance Requirements to Federal Grant
  - Allowable activities/cost
  - Cash management
  - Eligibility
  - Equipment and real property management
  - Cost sharing (including matching), level of effort, earmarking
  - Period of performance
  - Procurement, suspension and debarment
  - Program income
  - Reporting
  - Subrecipient monitoring
  - Special tests and provisions

Allowable Activities/Costs, Cash Management, Period of Performance and Reporting

- How Do Auditors Test Controls? They look for approvals over the following -
  - Invoices (non-payroll expenses)
  - Time sheets and payroll reports (payroll expenses)
  - Indirect cost allocations (apply to payroll and non-payroll expenses)
  - Disbursements (ACH, check, credit cards)
  - Drawn down requests from the grantor

Approvals by responsible official provide assurances **expenses are allowable, within the grant period and are incurred prior to submitting draw down requests.**

Eligibility of Those Receiving Funding

- How Do Auditors Test Controls? They look for approvals over the following -
  - Applications by individuals/ entities
  - Checklists for eligibility determination
  - Income verification
  - Any other documents provided as part of the eligibility determination

Approvals by responsible official provide assurances that **individuals or entities receiving grant funding from the company are eligible to receive funding.**

Equipment and Real Property Management

- How Do Auditors Test Controls? They look for approvals over the following -
  - Fixed asset ledgers
  - Physical inventories of equipment and real property

Approvals by responsible official provide assurances **real property and equipment purchased with federal funds are properly identified in the company's systems, physical inventories are being performed on a periodic basis, and funds received from disposals of real property and equipment are used in accordance with grant stipulations.**

Cost Sharing (including Matching), Level of Effort, Earmarking

- How Do Auditors Test Controls? They look for approvals over the following -
  - Grant budgets
  - Reports filed to grantors, which include cost sharing, level of effort and earmarking calculations

Approvals by responsible official provide assurances **the company is meeting the cost sharing, level of effort and earmarking requirements of the grant.**

Procurement, Suspension and Debarment

- How Do Auditors Test Controls? They look for approvals over the following -
  - Grant budgets and contracts, if approved vendors are outlined within those documents
  - Procurement policies
  - Checklists (if used for competitive bidding process)

Approvals by responsible official provide assurances **the company is following federal regulations surrounding procurement and ensuring vendors contracted under the grants are not debarred or suspended.**

Subrecipient Monitoring

- How Do Auditors Test Controls? They look for approvals over the following -
  - Applications
  - Checklists/documents used to perform subrecipient monitoring and tracking findings

Approvals by responsible official provide assurances **the company is properly monitoring its subrecipients to ensure they are performing activities in accordance with the grant.**

Controls Effect on Grant Audits

- If Controls Expected to be Operating Effectively, Audit Sample Sizes can be Lower
- Deviations Identified While Testing = Auditors Must Make Determinations
  - Do deviations present a **significant deficiency** or **material weakness** to include in the report?
  - Do any questioned costs need to be reported?
  - If control deficiencies are resulting in compliance deviations, this may result in a qualified opinion over compliance with the federal grant program.

Polling Question #4

Do you have adequate documentation of approvals by authorized officials that you can provide to your grant auditors?

A. Yes

B. No

C. Unsure

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Top 10 Grant Audit Issues

Frequently Encountered Items

1. Failing to Prepare SEFA Properly
2. Missing Formal Policy Documentation
3. Lacking Evidence of Reviews and Approvals
4. Allocating Indirect Costs Improperly
5. Requesting Reimbursement Before Costs Incurred
6. Filing Reports Late
7. Missing Support for Direct Payroll Costs
8. Skipping Competitive Bids in Procurement
9. Monitoring Subrecipients Inadequately
10. Recognizing Grant Audit Need Too Late

Cohen & Co's
Grant Audit Resource Center

cohenco.com/grant-audit-resource-center

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AI Readiness: Is Your Organization Prepared for the Journey?

Tuesday, August 19, 11 a.m. to Noon ET

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