

## Federal Audit Requirements: Introductory Guidance

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### Background

All health centers are required to conduct an annual independent audit. Health centers with project periods beginning prior to December 26, 2014 that expend at least \$500,000 annually in federal grant funds are required to obtain an annual audit that meets the requirements of OMB Circular A-133 and any “compliance supplements” applicable to the federal programs from which the health center receives financial assistance.<sup>1</sup> Health centers with project periods beginning after December 26, 2014 that expend at least \$750,000 annually in federal grant funds are required to obtain an annual audit that meets the requirements of 45 C.F.R. Part 75 Subpart F, together with any relevant compliance supplements.

All required non-federal audits must be performed in accordance with generally accepted government auditing standards (“GAGAS”), known as the Yellow Book. The scope of the audit must include:

- A determination that financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (“GAAP”);
- A review of internal controls over federal programs to support a determination of a low assessed level of control risk for major programs; and
- A determination as to whether an auditee has complied with the applicable laws, regulations, and the provisions of the grant agreements that could have a direct and material effect on the federal programs.

Further, an auditee, such as a health center, is specifically required to:

- Identify, in its accounts, all federal awards received and expended and the federal programs under which they were expended;
- Maintain internal control over federal programs that provide reasonable assurance that the health center is managing federal awards in compliance with applicable laws, regulations and the provisions of the grant agreements that could have a material effect on each of the federal programs;

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<sup>1</sup> See [OMB Circular A-133 Compliance Supplement – June 2015](#). Although the OMB Uniform Guidance codified at 45 C.F.R. Part 75 supersedes OMB Circular A-133 for periods after December 26, 2014, OMB continues to refer to its annual compliance supplements as the “OMB Circular A-133 Compliance Supplement.”

- Comply with laws, regulations and provisions of grant agreements related to each of its federal programs;
- Prepare appropriate financial statements, including the schedule of expenditures of federal awards;
- Ensure that the annual non-federal audit is properly performed and submitted when due (including required portions of the data collection form); and
- As necessary, take corrective action on audit findings, including preparation of a summary schedule of audit findings (as identified by the auditor) and preparing a corrective action plan.

The auditee must submit its annual non-federal audit to the Federal Audit Clearinghouse within nine (9) months after the end of its fiscal year or within thirty (30) days after receipt from the auditor, whichever is earlier.

### **Advice and Recommendations<sup>2</sup>**

As noted above, only those health centers that expend in excess of \$500,000 (project periods beginning before December 26, 2014) or \$750,000 (project periods beginning after December 26, 2014) in federal grant funds annually are required to conduct an audit that complies with the requirements of OMB Circular A-133 and/or 45 C.F.R. Part 75 Subpart F. It is nonetheless advisable that, to the extent possible, health centers that do not meet the expenditure thresholds also comply with such requirements.

- [Conducting the federal audit: Sample policy and procedure](#)

Ideally, the result of the audit will be an unqualified opinion with the following characteristics: gross charges exceeding billable expenses, acceptable financial ratios, and minimal (or no) material audit findings. If, however, there are audit findings, health center grantees are expected to undertake timely and appropriate steps to resolve such findings.

Health centers should note while the costs of the non-federal audit may be charged to a federal grant award, the cost of a deficient audit that is rejected by the government may not be charged to a federal grant award.

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<sup>2</sup> The Authors of these materials include attorneys at the law firm of Feldesman Tucker Leifer Fidell LLP. The advice and recommendations consist of general guidance based on federal law and regulations and do not necessarily apply to all health centers under all facts and circumstances. Further, these materials do not replace, and are not a substitute for, legal advice from qualified legal counsel.

Consistent with a renewed emphasis on auditor independence in recent years, auditors are precluded from performing the annual audit while at the same time providing certain non-audit management consulting services to a given health center grantee. By way of illustration, paragraph 3.58 of the Yellow Book prohibits the simultaneous provision of audit and non-audit services those relating to:

- payment or authorization of payment of auditee funds;
- Benefit plan administration;
- Investment advisory or management services;
- Corporate financial consulting or advising;
- Employee compensation and/or personnel decision-making; and
- Business risk consulting.

For additional information on procuring the services of the audit firm to provide non-audit services, see [Procuring non-audit services from the audit firm: Introductory guidance](#).