

# Audit Made Easy

*Karen Holmes, CPA, CGFM*  
*Financial Specialist*  
*FHWA, WV Division Office*

***Keep in Mind . . . Perception is Reality . . .***



# What brought us here?

## Financial Integrity Review & Evaluation

Financial management reviews & Single Audit

## Reports from Office of Inspector General

July 2011 Report stated \$8 billion annually plus \$8 billion ARRA

## FHWA National Reviews

Lack of comprehensive oversight routinely found on multiple levels

# What is the bottom line?

- To make much better use of our limited resources through increased oversight by ALL stakeholders
  - Why should we care?
- Budget cuts, layoffs in private and public sector, infrastructure issues

# How can audit & oversight be made easier?

- Know what to expect from and of the auditor  
Require entrance and exit meetings
- As the MPO/LPA clearly define your own expectations of the consultant and/or contractor
- Use your resources! Look for ways to partner

# What is a Single Audit?

- A single audit combines the annual financial statement audit with additional audit coverage of Federal funds.
- Required if entity expends \$500,000 or more in Federal funds
- The single audit is intended to meet the basic audit needs of both the non-Federal entity and Federal awarding agencies. Any additional auditing by the Federal government builds upon work performed by other auditors.


# What responsibilities are involved?

- Identify Federal awards received and expended
- Prepare financial statements and Schedule of Expenditures of Federal Awards
- Obtain the audit and ensure completion
- Submit the audit reporting package
- Take corrective action on audit findings

# How else to make it easy?

- Know the problem areas! Where are we seeing problems that can be avoided?
- Critical documents are missing from files such as NEPA documents, State agreements, permits, change orders, PE reports, construction records, diaries, material test reports, certified payrolls, labor compliance reviews
- Consultants typically keep the records associated with the administration of the project, leaving the owner with insufficient project documentation
- Project billings are not reviewed timely or systematically. How do you know you are getting what you are paying for?




- 
- What does your source documentation say? What would it say to a stranger?
  - Very few, limited, or no construction inspections are being performed
  - Work is performed outside of contract scope
  - Agencies lacking expertise in hiring and managing consultants should have State assistance

- *Feds find problems*” – Excerpts from a mid west newspaper
- Last fall, state auditors asked federal highway officials for help in reviewing change orders -- which can cause costs to balloon -- and a subsequent federal review found \$2.8 million in questionable cost overruns that **may have to be reimbursed** to the feds.
- In January, highway officials spent two days reviewing change orders representing 46 percent of the original construction contracts. **They found 69 change orders.**

- The federal report said it appeared the city and state's knowledge of federal eligibility criteria was "limited."
- The general manager of the District said such audits are by their nature critical.
- The city's original design contract with the consultant ballooned from \$3 million to \$32 million and the company's construction management contract grew from \$2 million to \$13 million as of August.

- The federal review found "substantial deficiencies and areas of noncompliance" and said many of the change orders were **not sufficiently justified or documented.**
- Several projects included work **not likely eligible** for federal reimbursement, such as an irrigation system, fiber optic work requested by the city, \$100,000 in pedestrian lighting, temporary lighting at the State Fair entrance, colored concrete and a pedestrian safety fence



*The Important Thing is Not to Stop  
Questioning . . .*

Most problems are avoidable or  
relatively easy to correct with a  
resolution to due diligence

# RESOURCES

- Highlights of single audit process and Q and As: basic questions, where to go for more information, due dates, extensions, submission process
- <http://harvester.census.gov/sac/FAQ.htm>
- General Grants Management Information: Audit Circulars, Audit Requirements, Administrative Requirements, Cost Principles
- [www.omb.gov/grants](http://www.omb.gov/grants)

## RESOURCES Continued

- AASHTO Uniform Audit & Accounting Guide for Audits of A&E Consulting Firms:

Management and CPA roles and responsibilities, allocating costs, unallowable costs, direct and indirect costs

<http://audit.transportation.org>

- Circular A-133 for Audits of States, Local Governments and Non-Profit Organizations: Single Audit in Detail  
[http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133\\_revised\\_2007.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf)





Karen Holmes  
Certified Public Accountant  
Certified Governmental Financial Manager  
Financial Specialist, FHWA – WV Division

[Karen.Holmes@dot.gov](mailto:Karen.Holmes@dot.gov)

304-347-5930

*Do your part for West Virginia*  
*WV DOH Fraud Hotline 1-866-206-2728*