

## Definitions

**Audit** - An independent review and examination of system records and activities.

**Finding** - The answer to an audit objective that is supported by sufficient, competent, and relevant evidence.

**Management Decisions** - The evaluation of a recommendation by management and a decision upon an appropriate course of action.

**Allowable Cost** - An incurred cost determined to be an acceptable charge to the USG.

## Topic: Financial Management

### *Annual Audit Requirements – Part 1*

**Q. What are some common questions partners ask about annual audits?**

**A. Who is required to conduct an annual audit?**

- U.S.-based nonprofit organizations that receive US\$500,000 or more in total funding from the U.S. Government (USG), either directly or as a subrecipient, during their fiscal year.
- Foreign nonprofits that receive all or a majority of their USG funding from USAID (either directly or as a sub), if they receive US\$300,000 or more during their fiscal year.
- For-profit organizations that receive all or a majority of their funding from USAID will be reviewed annually to determine if an audit is required.

### *Are audit costs allowable?*

If your organization is required to be audited, the costs of conducting the audit are allowable, provided the audit is conducted according to the appropriate regulations outlined below.

If you are not required to be audited (you do not reach the funding threshold), then audit costs are not allowable.

### *Where may I find the audit requirements?*

U.S.-based nonprofits are governed by the rules outlined in OMB Circular A-133. These regulations are the same regardless of what USG agency provides the majority of funding.

USAID ADS Chapter 591 governs all USAID for-profit and foreign-based recipients. This document also may be helpful to U.S.-based nonprofits as it provides clarification of OMB Circular A-133.

### *What are primes and subs responsible for if a subrecipient is audited?*

Subs will submit their audits directly to the USG. They are not required to submit their audit to the prime, *unless there are findings related to the funding from that award*, in which case they must submit a copy to the prime.

A prime has the right to request a copy, regardless of whether or not there were findings, and this may be specified in the award between the prime and the sub.

-more-

## References

OMB Circular A-133: Audits of States, Local Governments and Non-Profit Organizations  
<http://tinyurl.com/delnzi>

USAID ADS Chapter 591: Financial Audits of USAID Contractors, Recipients and Host Government Entities  
<http://tinyurl.com/4f4t75>

---

*An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.*

---

### For More information

For this or other issues of this eNewsletter, please visit [www.NGOConnect.NET](http://www.NGOConnect.NET). The Web site is a dynamic and interactive portal dedicated to connecting and strengthening NGOs, networks and NGO support organizations worldwide.

Funding for this publication was provided by the U.S. Agency for International Development, under the Capable Partners Program (CAP). Its contents, managed by CAP, and do not necessarily reflect the views of USAID or the U.S. Government.

© May 2009, AED. This publication may be photocopied or adapted for noncommercial use only without prior permission, provided credit is given to AED, CAP and USAID.



When subs have findings, primes take on the role of issuing management decisions on the corrective actions. The management decisions must be issued within six months of receiving the audit.

### **What needs to be audited?**

An audit typically covers your entire organization. However, if you have just one program that receives USG funding, you may choose to have a single-program audit.

Additionally, if you have a large, complex organization with many different operational units, it is possible to have an audit focus on the organizational unit that receives USG funds.

### **What timeframe is covered by the audit?**

The timeframe covered by the audit is your organization's fiscal year. In addition, the audit may look at previous audit findings to determine if corrective actions taken were sufficient to address previous findings.

### **Who may conduct an audit?**

U.S.-based nonprofit organizations must follow the procurement process and regulations in their Cooperative Agreements.

USAID-funded foreign-based organizations should contact their in-country or regional mission to request a list of organizations authorized to conduct audits of USG programs.

If an audit is determined necessary for a USAID-funded for-profit organization, the audit may be conducted by a USG official, rather than a private auditor. If a USG auditor is not available, USAID will direct the for-profit organization to hire an independent auditor.

### **When is an audit due?**

Your complete audit package must be submitted nine months after the end of your fiscal year or within 30 days of receiving the report from your auditor, whichever comes first.

### **After the Audit**

If an audit results in any findings, each must be addressed specifically by your organization in a plan for corrective action. If you disagree with a finding, it may be disputed.

For each finding, the agency or the prime (in the case of a finding for a subrecipient) will issue a corresponding management decision.

The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision and the expected auditee action, such as repaying disallowed costs, making financial adjustments or taking other action.

If the auditee has not completed corrective action, a timetable for follow-up will be given. The management decision should describe any appeal process available to the auditee.

The management decision must be issued within six months of receiving the audit.