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INFORMATION MEMORANDUM

TO: All Head Start and Early Head Start Grantees and Delegate Agencies

SUBJECT: Choosing an External Auditor

INFORMATION:

Office of Management and Budget (OMB) Circular A-133 applies to audits of States, local governments, and non-profit organizations.¹ Most grantees and delegate agencies that expend \$500,000 or more from Federal awards in a fiscal year, including funds received directly from the Federal Government for other programs, must have a single audit.² Single audit means an audit that includes the entity's financial statements and the Federal awards as described in OMB Circular A-133 §_.500 and covers the entire operation of the grantee.

Grantees that expend Federal awards under only one Federal program are generally eligible for a program-specific audit. Program-specific audit means an audit of one Federal program as provided in OMB Circular A-133 §_.200(c) and §_.235.³

Head Start recognizes that a high-quality audit results in both immediate and long-term benefits to the grantee agency. Effective audits provide guidance for needed improvement in existing program management and fiscal operations. Complete and timely audits demonstrate grantee accountability and promote long-term public confidence in Head Start's commitment to fiscal integrity. It is the responsibility of the auditee (grantee) to ensure that OMB Circular A-133 audits are properly performed and submitted when due. See OMB Circular A-133 §_.300(e).

¹ Grantees that are commercial organizations (including for-profit hospitals) should review audit requirements found at 45 CFR §74.26(c)-(d).

² States, local governments, and non-profit organizations that expend less than \$500,000 from Federal awards in a fiscal year are exempt from Federal audit requirements for that year, except as noted in OMB Circular A-133 §_.215(a), but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office (GAO). See OMB Circular A-133 §_.200(d).

³ Applies only when the grantee expends Federal awards under only one Federal program (excluding R & D) and meets the additional conditions described in §_.200(c).

An auditor is a public accountant or a Federal, State, or local government audit organization, which meets the general standards specified in generally accepted government accounting standards (GAGAS). The term auditor does not include internal auditors of non-profit organizations.⁴ See OMB Circular A-133 §_.105.

Factors to be considered in evaluating proposals for audit services include responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality reviews, and price. See OMB Circular A-133 §_.305(d). The governing body must approve selection of the financial auditor, except where the financial auditor is assigned under State or local law. See Head Start Act §642(c)(1)(E)(iv)(VII)(cc). Auditors hired to perform agency audits should be fully capable of complying with all applicable professional auditing standards.⁵

Section _.305(a) of OMB Circular A-133 describes the processes to be used for auditor procurement. Grantees must follow their usual procurement procedures in connection with selection of an auditor. Procurement processes must meet the applicable requirements of either 45 CFR §74.44 or 92 CFR §92.36. Whenever possible, grantees shall make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises in procuring audit services. The following guidance is provided to assist grantees in effective auditor selection:

Step 1: Plan Carefully. Be clear about what needs to be done and when. Planning to hire an external auditor requires time and attention. Define audit expectations, including the entity to be audited, scope of the audit, ability to address Head Start audit requirements⁶, preference for Head Start audit experience, how audit proposals will be evaluated, and audit timeline expectations. Consider consulting the agency's governing body member(s) with a background and expertise in fiscal management or accounting to assist in planning to hire an auditor.

Step 2: Communicate Audit Requirements and Solicit Proposals. Free and open competition is required in the solicitation of audit services. The audit expectations developed in planning should be clearly communicated in the agency's solicitation for bids or proposals. Be sure to include the period to be audited, a clear statement that the resulting audit must meet Head Start requirements⁷, and minimum expectations such as appropriate licensure, meeting independence standards, a record of responsible work, and compliance with requirements for peer review and continuing professional education.

Step 3: Evaluate Proposals to Select the Auditor. Once the proposal period has closed, it is important to utilize a uniform process for evaluating auditor proposals. This process should provide a

⁴ An auditor who prepares the grantee's indirect cost proposal or cost allocation plan may not also perform the grantee's OMB Circular A-133 audit when the indirect costs recovered by the grantee (auditee) during the prior year exceed \$1 million. See OMB Circular A-133 §_.305(b).

⁵ Applicable accounting standards generally include OMB Circular A-133, OMB Circular A-133 Compliance Supplement, generally accepted government accounting standards (GAGAS), and generally accepted accounting principles (GAAP).

⁶ Head Start program-specific audit requirements are found in the March 2011 OMB Circular A-133 Compliance Supplement, §93.600.

⁷ Ibid.

systematic framework for selecting an auditor on the basis of needs and expectations defined in the planning process and communicated in the procurement process. After minimum standards are met, proposals should be further evaluated for extent of understanding the audit requirements, a sound technical approach with realistic timelines, relevant experience and qualification of the audit organization, and sufficient experience and education of key personnel to be assigned to the audit. Once proposals have been evaluated, consider price to select the proposal that is most advantageous to the organization.

Step 4: Document Expectations. A written agreement between the auditor and the agency can avoid problems and clarify important issues such as deadlines for work to be performed, final cost, payment terms, and any support services to be provided by the auditor, such as presentation of the audit to the governing body and follow-up reporting of agency actions to correct monitoring findings. The written request for audit proposals and the response of the selected auditor should be incorporated into the written agreement.

Step 5: Ensure a Complete and Timely Audit. Carefully monitoring the progress of the audit ensures that the agency receives the type and quality of audit services agreed on. An audit creates a working relationship between the agency and the auditor with the shared goal of producing a timely and high-quality audit. It is important to monitor timelines, receive periodic progress reports, and hold regular meetings to discuss issues that need to be resolved. Meet with the auditor at the completion of the audit to discuss the draft report to ensure a clear understanding of the report and its findings.

CITATIONS: Head Start Act §642; 45 CFR Part 74; 45 CFR Part 92; OMB Circular A-133; Appendix A; OMB Circular A-133 Compliance Supplement.

Please direct any questions on this Information Memorandum to your Office of Head Start Regional Office.

/ Yvette Sanchez Fuentes /

Yvette Sanchez Fuentes
Director
Office of Head Start