

Hot Topics for Community Grant Schools

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As another year of audits draws to a close, grant schools may find themselves thinking about just the information asked for by their auditors, and wondering where some of these requests came from or how information is used to complete testwork. Audits are continuously evolving to match the ever-changing standards and rules, and our testwork is constantly altered to keep up with these updates. We know that everyone (including ourselves!) has questions on many of these areas, so we are going to go through some of the more common areas we have seen in recent audits.

Conflict of Interest

2 CFR § 400.2(b)(1) states that “No employee, officer or agent may participate in the selection, award, or administration of a federal award if he or she has a real or apparent conflict of interest.”. So, what does that even mean? A conflict of interest, in its simplest form, is when an employee has a related party or personal interest in a vendor that the school is looking to employ. Related parties can be tricky, as familial relationships can differ depending on the location, but the CFR defines a related party in these conflicts of interest as a member of the employee’s immediate family, or a partner. While many schools require conflict of interest disclosures in their policies, and have employees sign a form showing they acknowledge said policies, we encourage schools to take the extra step and establish a formal conflict of interest form for employees and board members to sign. It can be given out upon commencement of employment and updated annually, whether that be at a yearly training, at the beginning of each school year, or the even first Tuesday of the first month of the calendar. This helps hammer down the importance of disclosing these conflicts by establishing a tone at the top. The yearly reminder also allows employees to report any new conflicts they may have forgotten to disclose.

Collateralization of Bank Accounts – What’s my Coverage?

Any tribe, tribal organization, or consortia receiving advance payments under the Indian Self-Determination and the Education Assistance Act (ISDEAA) may invest those payments before the funds are expended, as long as the investments are invested in an account that is insured by an agency or fully collateralized (25 USC Ch. 46, Section 5310). At its base level, a collateralized bank account is one that is insured and protected in the event of a bank failure ensuring the depositor does not lose their deposits. The Federal Deposit Insurance Corporation – or FDIC, for short – is an agency created primarily to protect depositors’ accounts in the event of such a failure. The FDIC provides coverage for a variety of accounts, including but not limited to checking accounts, savings accounts, money market accounts, and certificates of deposits; it does not cover investment accounts or mutual funds. The FDIC will provide \$250,000 of coverage per depositor, per type of account, and per bank. They will not, however, provide additional coverage for multiple accounts of the same type within the same bank – for example, multiple checking accounts. For any amount that is not covered by the FDIC, the depositor will have to work with their bank to ensure the remaining deposits are collateralized.

So Many IT questions – Why?

As the world becomes more and more digital, our reliance on technology for storing and processing data increases. Many entities are nearly paperless, keeping their supporting documentation in labelled PDFs rather than file cabinets. More data is stored digitally but is still vulnerable to a plethora of risks, including corruption of data, physical disasters, misuse, and breaches. Now more than ever it is imperative to ensure internal controls over information technology are strong and efficient and are able to protect the myriad of information kept within these systems. This includes controls over strong passwords, physical and digital access to IT systems, backup procedures, recovery plans in the event of a disaster, audit or change logs within applications, and many, many more. As technology advances, so do the risks, and ensuring your school has strong controls over these areas will help protect the school from any potential data breaches or loss. Information can be threatened by more than just outside risks; however, the accessibility of technology has blurred the lines between some separations of duties, allowing certain employees to have editing access to modules they would have previously never had any reason (or ability) to access. It is important to stay diligent while assigning employees access to the IT systems to ensure they only receive the access they need, or, if an employee requires more access, that strong checks and balances are in place so this risk is mitigated.

Cutoff and Undistributed Warrants

One of the key audit assertions reviewed during audits is cutoff, or the assertion that all transactions are recorded in the correct fiscal year. If you’ve ever heard your auditors ask for documentation from the subsequent fiscal year, this is why! When we do our testwork, we are looking to ensure items recorded in the subsequent fiscal year belong there; for example, we would check to see that items were received on or after July 1 of that year. Management should keep a close eye on transactions recorded near year-end, such as purchases made in May or June, to ensure they are recorded in the correct fiscal year. Undistributed warrants are checks that have been processed and created as of year-end (6/30) but were not distributed until after. These are

also used to test our cutoff assertion described above. We want to make sure that any undistributed warrants are recorded in the correct fiscal year and confirm that these checks are kept in a safe, secure location, with limited access for authorized personnel.

Capital Asset Management

Capital asset reporting is one of the more complex areas when it comes to financial reporting, and it is easy to get overwhelmed by all the different requirements, rules, and strategies for managing these assets. Our first and biggest recommendation when it comes to managing capital assets is to do what you can now. Schools should go through their capital asset listing periodically to record additions, deletions, and any changes that might be necessary, rather than waiting until year end; your future self will thank you! Physical inventories are federally required every two years (2 CFR § 200.313(d)(2)), but depending on the size of your school, it may be beneficial to complete them more frequently, especially if you have many capital assets or had a lot of additions/deletions in the fiscal year. Another area we often see confusion and findings in is depreciation. It is crucial to ensure that assets are not depreciated past their total cost, so that there are no assets with a negative net value or that were depreciated past a zero-book value. The CFR reiterates this in section 200.436(d)(4) where it states that no depreciation may be allowed on any assets that have outlived their depreciable lives. Grant schools should take care to assign appropriate useful lives to assets as well to make depreciation reporting as accurate as possible and avoid over-depreciating their assets. Additionally, it is important to confirm that capital asset records do not include assets that have already been disposed of.

Your auditors are very thankful for all of the hard work put in pulling all of the required documents and answering the (seemingly) millions of questions they pose. Hopefully this document helped clarify some of more commonly asked questions. We at Heinfeld Meech are here to help with these topics and many more!

Related articles:

- [Tips to Have Your Capital Asset Schedules Ready for Your Audit](#)
- [The Importance of Backup Procedures and Disaster Recovery](#)

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