FAQs relating to Audits:

1) **What is an Audit?**
Also referred to as the **Audited Financial Statements**, or the **Comprehensive Audited Financial Report (CAFR**), an audit provides the **highest level of assurance**. A **CPA, independent** of the agency, is required to have extensive knowledge of the economy, the relevant industry, and the organization's business, in order to perform the audit. He/she will conduct verification and substantiation procedures to include third-party verification of cash, investment, and debt balances; direct correspondence with creditors, physical inspection of assets, sample testing of transactions, review of board and committee minutes, contracts, etc. While the auditor does not express an opinion on internal controls, he may identify material weaknesses and significant deficiencies in internal controls. (See Management Letter.)

2) **What is a Review?**
A review is less in scope than an audit**.** It provides **limited assurance** that the financial statements do not have known errors or departures from generally accepted accounting principles. An **independent CPA** must perform inquiry and analytical procedures**.** DCJ accepts reviews if the agency's annual **revenues are less than $300,000**.

3) **What is a Single Audit?**
A Single Audit, required of agencies who **expend $750,000 or more of federal funds** from all sources during the agency's fiscal year, provides the auditor's opinion on the agency's financial statements for **federal awards**; internal controls over federal programs; compliance with laws, regulations and provisions of contracts or grant agreements that could have an effect on major programs; and includes a schedule of findings and questioned costs (if any), corrective actions, and follow up on any prior audit findings. The Single Audit must be filed electronically, by the **independent CPA**, with the **Federal Audit Clearinghouse (FAC)** annually, within nine months after the end of the audit period.

4) **What is the Governance Letter?**
This letter (SAS 114) is the auditor's communication with those charged with governance and is required by the American Institute of CPAs (AICPA). The purpose of the letter is to communicate to those charged with governance, such as the Board of Directors, Audit Committee, President, or Management, the scope of audit procedures performed, significant findings, and other information, such as disagreements with management, audit adjustments and significant estimates, that aren't communicated in the audited financial statements. Another important portion of the letter is the presentation of any passed journal entries. These are entries that were not posted to the audited financials, because, in total, they have no material effect on the financial

statements, but are presented to the agency in this letter in order to draw governance's attention to other known errors that were found during the audit.

5) **What is the Management Letter?**
This letter (SAS 115) from the auditor, external from the report, communicates internal control related matters identified during the audit. **Internal controls** have to do with operations, reporting, and compliance. The AICPA requires the issuance of a management letter, to those charged with governance, in the event **material weaknesses** or **significant deficiencies** are identified. Weaknesses and deficiencies may include such issues as lack of segregation of duties, inadequately trained accounting personnel, restated prior period financial statements, and material audit adjustments. The auditor may also offer **recommendations** for ways to improve these controls that will help to mitigate risk and strengthen your company's accounting processes.

6) **What do you mean by Corrective Actions?**
This is the agency's response to the Management Letter. What actions have the Board and Management taken, in response to the auditor's recommendations, to correct the deficiencies identified during the audit? Examples: the agency hired another accountant, or developed a new procedure to provide clearer segregation of duties.

7) **Why do you need to see all these reports and letters?**

The agency information submitted allows DCJ to assess agency risk and financial capability to manage funds. Regulations require DCJ to be good stewards of the grant funds. DCJ is required to determine financial risk for each awarded at the onset of the award to determine if it is necessary to impose additional special conditions on the award. A higher risk grantee may be required to submit additional supporting documentation with reimbursement requests, or undergo more frequent site visits from DCJ, etc. Following the award DCJ collects the information to ensure that there were no findings related to issuance of the DCJ grant award, which might impact future funding and or create unallowable costs.

8) **When and to whom should my agency submit its audit/review to DCJ?**
Ideally, it should be submitted to the DCJ Audit Compliance Monitor, DCJ_Audits@state.co.us**, as soon as it is completed each year**, even if the agency received funding for only part of that year. The DCJ Grant Instructions state the agency **must** submit its audit no later than nine months after the completion of its fiscal year or within 30 days of completion of the audit, **whichever is earlier**.