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Overview of a Single Audit

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Agenda

- Overview of the Single Audit
- Description and Characteristics of Federal Awards
- Auditee and Auditor Responsibilities
- Pass-Through Awards and Subrecipients

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Overview of the Single Audit



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Overview of the Single Audit

What gives the single audit its authority?

Single Audit Act Amendments of 1996

- Enacted to streamline and improve the effectiveness of audits of federal awards and to reduce the audit burden on states, local governments, and not-for-profit entities
- Detailed implementation requirements for single audits contained in regulation

Uniform Guidance

- Current regulation that implements the Single Audit Act

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Overview of the Single Audit

Who are the key players?

OMB - responsible for issuance and maintenance of single audit regulation and coordinating with grant-making federal agencies

Grant-making agencies (example: state departments)

GAO -responsible for issuance of Government Auditing Standards

FAC - Collects/disseminates single audit information on behalf of OMB



Overview of the Single Audit

Who are the key players?

Single Audit Coordinators

- Position in each IG office responsible for preventing/detecting fraud, waste, and abuse
- Often responsible for desk reviews and quality control reviews of single audits
- Usually familiar with the audit requirements

Single Audit Accountable Official

A policy official of the awarding agency who can be responsible for overseeing agency management's role in audit resolution

Key Management Single Audit Liaison

Responsibilities defined in UG and include serving as the agency's management point of contact for the single audit process both within and outside the federal government



Overview of the Single Audit

When does an entity undergo a single audit?

The Uniform Guidance requires an entity that expends \$750,000 or more of federal awards (either direct or indirect awards) in their fiscal year to have a Single Audit.



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Overview of the Single Audit

Objectives of a single audit

To determine if the entity has complied with direct and material compliance requirements for each major program

Single audits:

- Are used as a report card by federal funding agencies and pass-through entities
- Are used as a tool for federal agencies to address problems at the grantee level or to make broad changes/improvements to federal programs
- Provide assurance to users regarding compliance and information about a non-federal entity's internal control over compliance



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Overview of the Single Audit

Scope of the single audit

- Conducted in accordance with both GAAS and GAGAS
- Covers entire operations of the entity
- Auditor provides an opinion on whether financial statements are presented fairly, as well as the Schedule of Expenditures of Federal Awards (SEFA)
- Auditor gains understanding of and tests internal control over compliance
- Auditor opines on compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs
- Auditor responsible for following up on prior audit findings

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Overview of the Single Audit

Defining the entity to be audited

Single audit must cover the entire operations of the auditee

The auditee has the option to meet the single audit requirement through a series of audits

- If this option is taken, the audit must include a series of audits that cover departments, agencies, and other organizational units (referred to below as units) that expended or otherwise administered federal awards during the audit period
- Only permitted if each audit encompasses the financial statements and the SEFA for each unit which must be considered a non-federal entity
- The financial statements and SEFA must be for the same audit period.

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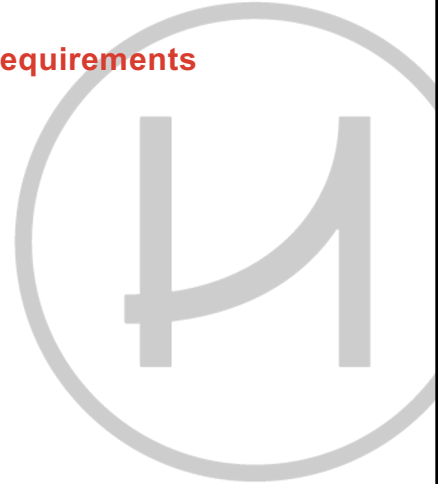
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Overview of the Single Audit

Scope of the single audit – relation to other audit requirements

Single audit is meant to be in lieu of any financial audit of federal awards that an entity is required to undergo under any other federal statutes, regulations, and terms and conditions of federal awards

However, federal agencies may conduct or arrange for additional audits to carry out their responsibilities under federal statutes, regulations, and terms and conditions of federal awards.



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Overview of the Single Audit

What is a program-specific audit?

Allowed under the Single Audit Act and the UG in certain circumstances

- Auditee expends federal awards under only one federal program (excluding R&D); and
- The federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee

Audit requirements defined in the UG

- Include an audit of an entity's compliance with direct and material compliance requirements as they relate to an individual federal program
- No financial statement audit

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Overview of the Single Audit

Relationship of Yellow Book to Single Audit

GAGAS vs. single audit

- GAGAS is a set of audit standards – the how
- Single audit is based on law and regulation requiring that financial statements and major programs be audited – the what, with a little how

GAGAS and single audit work in tandem... and sometimes they don't

- There cannot be a single audit without the audit also being done under GAGAS
- There can be an audit using GAGAS that does not include a single audit

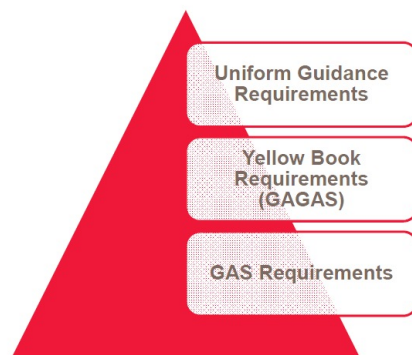
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Auditee and Auditor Responsibilities

Single audits involve three layers of requirements



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Overview of the Single Audit

Timing Requirements

- Audit must be performed annually
 - Biennial audits allowed under limited circumstances
- Must be submitted to the FAC within the earlier of 30 days after receipt of the auditor's reports or 9 months after the end of the audit period
- If the due date falls on a Saturday, Sunday, or federal holiday, the reporting package is due the next business day.

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Overview of the Single Audit

Materiality

Financial statement materiality vs. single audit materiality

- Financial statement materiality relates to the financial statements being audited
- Single audit materiality is determined for each individual major program and generally lower than financial statement materiality

Materiality for reporting audit findings

- Relates to each compliance requirement for each major program

Single audit materiality factors

- Nature of the compliance requirements
- Nature and frequency of noncompliance identified
- Needs and expectations of federal agencies and pass-through entities

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Overview of the Single Audit

Single Audit – Contents of the single audit submission (also known as the “reporting package”)

- Auditor’s report on the financial statements of the entity
- Auditor’s in-relation-to reporting on the SEFA
- Entity’s financial statements
- Entity’s SEFA
- Auditor’s report(s) on internal control over financial reporting and on compliance and other matters to meet GAGAS requirements

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Overview of the Single Audit

Single Audit – Contents of the single audit submission (also known as the “reporting package”)

- Auditor’s report on compliance and internal control over compliance – major programs
- Auditor’s schedule of findings and questioned costs (Includes summary of auditor results and findings)
- Entity’s summary schedule of prior audit findings
- Entity’s corrective action plan (required to be on client letterhead)
- The reporting package and a form summarizing the audit (DCF – see next slide) are submitted electronically to the FAC

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Overview of the Single Audit

Data Collection Form (DCF)

- Joint responsibility of auditee and auditor
- Completed electronically on FAC Web site
- Summary of the single audit reporting including audit opinions and other findings
- Includes contact information for auditee and auditor
- Includes SEFA information, references to findings, and relevant compliance requirements
- Electronic signature of both auditee and auditor



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Description and Characteristics of Federal Awards

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Federal Awards

What is a federal award?

The Uniform Guidance defines a *federal award* as

- Federal financial assistance that a nonfederal entity receives directly from a federal awarding agency or indirectly from a pass-through entity.
- Cost-reimbursement contracts that a nonfederal entity receives directly from a federal awarding agency or indirectly from a pass-through entity.
- The instrument setting forth the terms and conditions of an award.



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Federal Awards

Examples of federal awards

- Grants
- Contracts
- Cooperative agreements
- Loans
- Loan guarantees
- Property
- Interest subsidies
- Insurance
- Direct appropriations
- Endowments
- Other non-cash assistance
- Indirect state or local government transfers of federal funds



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Federal Awards

When are federal awards expended?

The determination of when a federal award is expended must be based on when the activity related to the federal award occurs. In general, the activity pertains to events that require the auditee to comply with federal statutes, regulations, and the terms and conditions of federal awards.



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Federal Awards

When are federal awards expended?

Examples:

- Expenditures or expenses transaction associated with awards including grants, cost reimbursement contracts, contracts with Indian tribes, cooperative agreements and direct appropriations
- The disbursement of funds to subrecipients
- The use of loan proceeds under the loan or loan-guarantee programs
- The receipt of donated property
- The distribution or use of food commodities
- The period when insurance is in force.



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Federal Awards

What is a federal program?

- The Uniform Guidance defines a *federal program* as all *federal awards* which are assigned a single number in the CFDA.
- Federal programs that have been designated as a *cluster* must be considered as one program when determining major programs.



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Auditee and Auditor Responsibilities

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Auditee and Auditor Responsibilities

Key Responsibilities of Auditees

The Auditee must:

- Prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance.
- Evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards.

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Auditee and Auditor Responsibilities

Key Responsibilities of Auditees (continued)

- Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.
- Procure or otherwise arrange for the single audit and ensure it is properly performed and submitted when due.

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Auditee and Auditor Responsibilities

Key Responsibilities of Auditees (continued)

- Maintain internal control over federal programs
- Comply with federal statutes, regulations, and the terms and conditions of federal awards.
- Evaluation and monitor compliance with statutes, regulations, and the terms and conditions of federal awards
- Take prompt action when noncompliance is identified

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Auditee and Auditor Responsibilities

Key Responsibilities of Auditees (continued)

- Take reasonable measures to safeguard protected personally identifiable information.
- Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the single audit.

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Auditee and Auditor Responsibilities

Key Responsibilities of Auditees – Auditor Selection

- Must follow procurement standards in 200.317 through 200.326
- Auditee must request a copy of the audit organization's peer review report
- Restriction on auditor preparing indirect cost proposals



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors

The Auditor must:

- Determine whether the financial statements of the auditee are presented fairly in all material respects in accordance with generally accepted accounting principles.
- Determine whether the schedule of expenditures of federal awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.
- Comply with the requirements of GAGAS.



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors (continued)

- Perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.
- Plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and perform testing of internal control as planned.



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors (continued)

- Determine the current compliance requirements and, where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor must modify the audit procedures accordingly. For those federal programs not covered in the Compliance Supplement, the auditor should follow the compliance supplement's guidance for programs not included in the Compliance Supplement.



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors (continued)

- Perform compliance testing that includes tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.
- Determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors (continued)

- Follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. Follow-up procedures must be performed regardless of whether a prior audit finding relates to a major program in the current year.



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Auditee and Auditor Responsibilities

Key Responsibilities of Auditors (continued)

- Follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. Follow-up procedures must be performed regardless of whether a prior audit finding relates to a major program in the current year.



Pass-Through Awards and Subrecipients



Pass-Through Awards & Subrecipients

Pass-through awards and subrecipients

Many nonfederal entities receiving federal awards pass the federal awards through to other entities that are considered “subrecipients”

Examples:

- State government (a PTE) passes federal funds down to local governments (subrecipients) within the state
- A local government (a PTE) passes federal funds down to not-for-profit organizations (subrecipients)

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Pass-Through Awards & Subrecipients

Pass-through awards and subrecipients

PTE is a nonfederal entity that provides a federal award to a subrecipient to carry out a federal program

Subrecipient is a nonfederal entity that receives a subaward from a PTE to carry out part of a federal program

- Does not include an individual that is a beneficiary of such program.
- A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency

Contractor is an entity that receives a contract

- A contract is defined in as a legal instrument by which a non-federal entity purchases property or services needed to carry out the project or program under a federal award

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Pass-Through Awards & Subrecipients

Applicability of single audit to pass-through awards and subrecipients

- Single audit requirements apply to both PTEs and subrecipients of federal awards
- Payments received by a contractor for goods or services provided in connection with a federal program are not considered federal awards
- Fees for services are typically not considered federal awards
- Determining subrecipient vs. contractor can be tricky and involves some judgment



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Pass-Through Awards & Subrecipients

Factors typically indicating a subrecipient

- Determines who is eligible to receive federal assistance
- Has its performance measured against whether the objectives of the federal program are met
- Has responsibility for programmatic decision-making
- Has responsibility for adherence to applicable federal program compliance requirements
- Uses the federal funds to carry out a program for a public purpose, as opposed to providing goods or services for the benefit of the PTE



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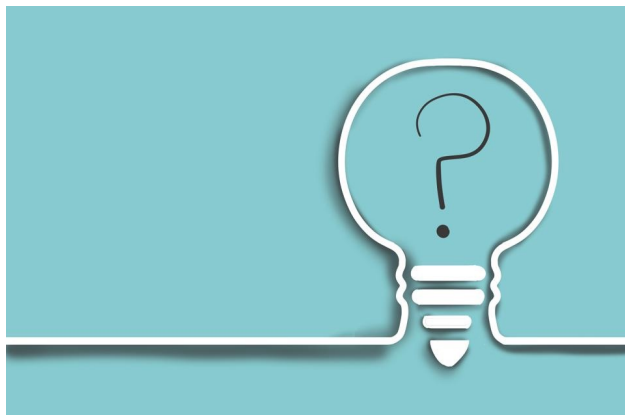
Pass-Through Awards & Subrecipients

Factors typically indicating a contractor

- Provides the goods and services within normal business operations
- Provides similar goods or services to many different purchasers
- Operates in a competitive environment
- Provides goods or services that are ancillary to the operation of the federal program
- Is not subject to the compliance requirements of the federal program



Questions?



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Thank You!

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