

The Single Audit: What it Means for the Auditee

Stacie Kowalczyk
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Agenda

- Overview of the Single Audit Act and Single Audit Resources
- Overview of the Compliance Supplement and Compliance Requirements
- Schedule of Expenditures of Federal Awards (SEFA)
- Best Practices
- Resources

Overview of Single Audit Act and Single Audit Resources

Single Audit Act of 1984 - History

- Established uniform requirements for audits of States, local governments and Indian tribal governments receiving federal financial assistance.
 - In 1996, the act was amended to extend the audit requirements to **not for profit organizations** (substantially revised the 1984 act).
 - A-133 Compliance Supplement is a result of the 1996 revisions and gives more structured guidance on how to audit federal programs.
 - Without this Supplement, auditors and auditee organizations would need to research many laws and regulations for each major program to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program.

Office of Management and Budget

- OMB – Office of Management and Budget
 - The OMB does not award grants.
 - OMB oversees agency management of programs and resources to achieve legislative goals and Administration policy. It also oversees agency program evaluation activities to determine their net effects, success or failure, and how agencies respond to these findings by making management improvements and developing new budget and policy proposals.



Code of Federal Regulations (CFR)

- Codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.
 - Divided into 50 titles.
 - Each volume of the [Electronic CFR](#) is updated each calendar year and issued on a quarterly basis.



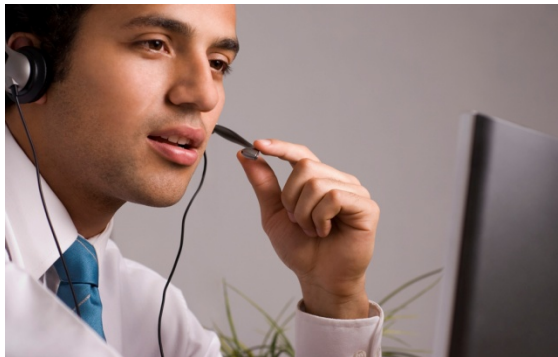
Cost Circulars for Non Profit Organizations – Link Found on OMB Website

- [OMB Website](#)
 - A-122 cost circulars for not for profit organizations are located at [2 CFR Part 230](#) .
 - Administrative requirements for not for profit organizations can be found in the A-110 Common Rule at [2 CFR Part 215](#) .



Catalogue of Federal Domestic Assistance (CFDA)

- Provides a short summary of each grant program.
- Provides contact information for Federal agencies that award grants.
 - [Catalogue of Federal Domestic Assistance](#)



Overview of Low/High Risk Auditee Status and Major Program Determination

Major Program Determination – Overall Basis of Determination

- An auditee organization will either be classified as low risk or high risk.
 - Based on this classification, auditors are required, through the selection of major Type A and B programs (as discussed in the following slides) to obtain the following coverage of the total expenditures on the SEFA.
 - Non low-risk auditee – 50% coverage
 - Low-risk auditee – 25% coverage

Overview of Low/High Risk Auditee Status

- To be eligible for a reduced threshold (25% instead of 50%) for testing of major programs, an entity must qualify as a “low-risk auditee.”
- Entity is considered a low-risk auditee if it meets ALL of the following criteria for each of the previous two years:
 - Single or program-specific audits were performed in accordance with the provisions of OMB Circular A-133.
 - The auditor’s opinions on the financial statements and the SEFA were unqualified, or if either or both were qualified, the cognizant or oversight agency for audit has judged that the qualified opinions do not affect management of federal awards and has provided a waiver.

Overview of Low/High Risk Auditee Status, continued

- The auditor's Yellow Book report on internal control did not identify any deficiencies in internal control that were identified as material weaknesses or if material weaknesses were identified, the cognizant or oversight agency for audit has judged that the material weaknesses do not affect the management of federal awards and has provided a waiver.
- None of the federal programs had audit findings from any of the following in either of the preceding two years (or, in the case of biennial audits, the preceding two audit periods) in which they were classified as Type A programs:
 - Internal control deficiencies identified as material weaknesses.
 - Noncompliance with the provisions of laws, regulations, contracts, or grant agreements that have a material effect on the Type A programs.
 - Known or likely questioned costs that exceed 5% of the total federal awards expended for the Type A programs to which the findings relate during the year of the findings.

Major Program Determination



- There are two types of programs:
 - Type A
 - Type A programs are generally those in which an auditee has spent \$300,000 or more during the fiscal year.
 - Type B
 - Type B programs are generally those with a \$100,000 floor of federal expenditures by the auditee.

Major Program Determination – Type A and B Programs

- In addition to dollar thresholds which define Type A and B programs, these programs are considered higher or lower risk based on an additional set of program risk considerations.

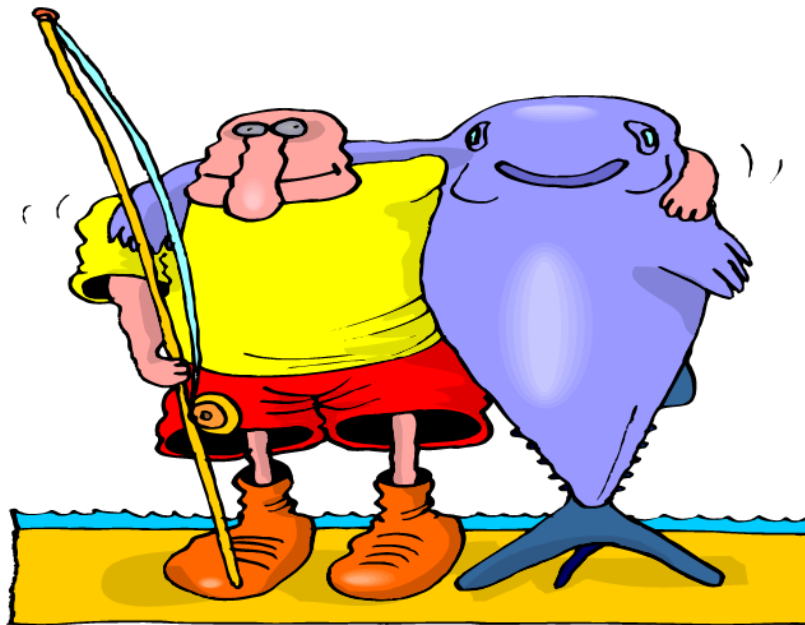
- **Risk Assessment Considerations**

- Size of program
- Program maturity at federal agency
- Program maturity at auditee
- Complexity
- Extent of contracting
- Use of sub recipients
- Level of oversight
- Audit follow-up
- Personnel and systems
- Identified as high risk (in Compliance Supplement)
- Control risk



Major Program Determination – There’s always a “Catch 22”

- All American Recovery and Reinvestment Act (ARRA) funds are automatically considered high risk programs whether they are a Type A or B and will therefore be selected for testing.



Compliance Supplement and 14 Compliance Requirements

2010 Compliance Supplement

- Part 1 – Background, Purpose and Applicability
- Part 2 – Matrix of Compliance Requirements
- Part 3 – Compliance Requirements
- Part 4 – Agency Program Requirements
- Part 5 – Clusters of Programs
- Part 6 – Internal Control
- Part 7 – Guidance for Auditing Programs Not Included (Part 2 Matrix)

To access either a PDF or Word version of the 2010 Compliance Supplement click here...[2010 Compliance Supplement](#)

Review of Sections of Compliance Supplement

Part 1 of the Compliance Supplement, (Purpose, Background, Availability)

- Compliance supplement is updated each year in March.
 - The 2010 Compliance Supplement includes updated guidance for American Recovery and Reinvestment Act Funds.



Review of Sections of Compliance Supplement

- Part 2 – Matrix of Compliance Requirements
 - Resource for determining which of the compliance requirements are applicable to your major programs.
 - Auditor will also look to see specific requirements in the grant award agreement.
 - Part 2 should also be used in conjunction with Part 3 (to be explained in more detail later).



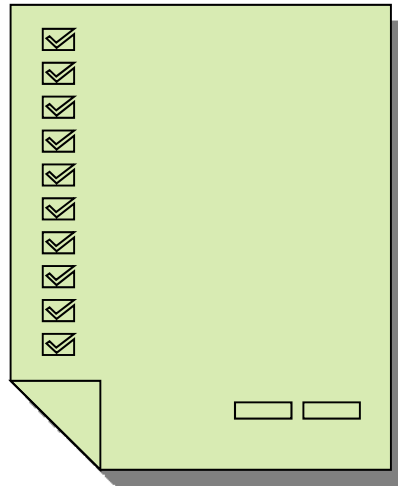
Part 2 – Matrix of Compliance Requirements

CFDA	Types of Compliance Requirements													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
93 – Department of Health and Human Services (HHS)														
93.044														
93.045														
93.053	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.153	Y	Y	Y			Y	Y	Y	Y	Y		Y		
93.210	Y	Y	Y		Y			Y		Y				
93.217	Y	Y	Y			Y	Y	Y	Y	Y		Y	Y	
93.224	Y	Y	Y		Y	Y		Y	Y	Y		Y		Y

It should be noted that the compliance requirement applicability is universal to the CFDA number. You should further review your specific grant award as one of the requirements listed in Part 2 of the Compliance Supplement may not be applicable to your specific award.

Review of Sections of Compliance Supplement – Part 3

- Part 3 – Compliance Requirements
 - Let's take a look at each one of the 14 Compliance Requirements in the following slides and what they mean.



Allowable and Unallowable Activities and Costs/Cost Principles

- Read through [2 CFR Part 215](#) and [230](#) for administrative requirements and cost circulars for non profits for guidance on allowable costs.
- Look to your specific grant award for further information on allowable costs or activities.
- Look at the CFDA # of the grant in Part 4 (Agency) of the Compliance Supplement.

Cash Management

- Determine whether your grant is a cost-reimbursement grant or advanced funds
 - For **advanced funds** - focus should be on whether procedures are in place to minimize time between advancement of funds and disbursement for use.
 - If interest is earned on **advance funds** it must be returned to the appropriate federal agency.
 - Program income, rebates, etc. should be used first to offset grant expenses prior to requesting additional **advances**.
 - For a **cost-reimbursement** grant - costs should be **incurred** prior to request for reimbursement.

Davis Bacon

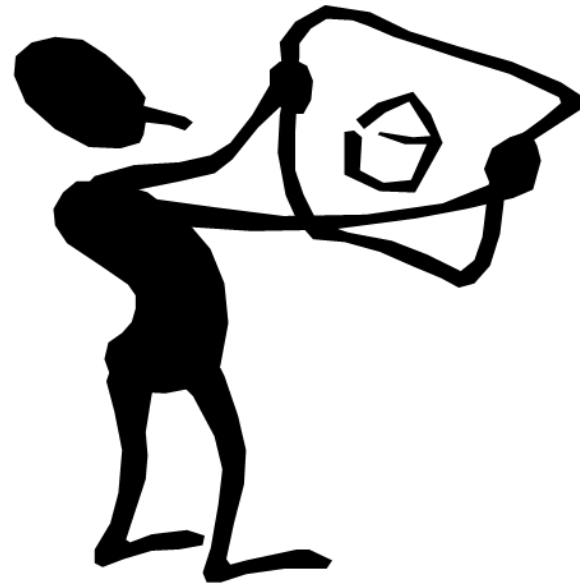


- When required by the Davis-Bacon Act, the Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, **ARRA**, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates).
 - Submission of certified weekly payrolls

The U.S. Department of Labor, Employment Standards Administration, maintains a Davis-Bacon and Related Acts [Internet page](#)

Eligibility

- Individual eligibility
- Group of individuals or area of service delivery
- Eligibility for sub-recipients

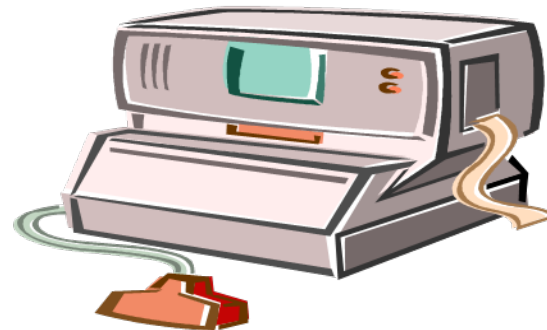


Eligibility

- **Best Practices**
 - Remember that when an individual, group or service area or sub-recipient is no longer eligible to receive benefits, benefits should be discontinued.
 - Ensure proper files are kept which determine eligibility including computations of amounts to be disbursed.
 - If your eligibility determination is computerized, have controls around the computer restricting who has access, who can make eligibility determinations and run computer error reports to test whether the correct eligibility determinations and amounts are being made.

Equipment and Real Property Management

1. Take a physical inventory at least every two years. Reconcile the physical count with your General Ledger.
2. Ensure you keep an updated equipment listing. Be able to locate support for all items on the listing.
3. Any proceeds from dispositions of equipment with a per unit market value of \$5,000 or more, the Federal Agency may be entitled to a proportionate share of the proceeds.
4. Real property dispositions – reimbursement to Federal Agency of net proceeds or fair market value of the federal portion.



Matching, Level of Effort and Earmarking

- **Matching** – your grant award might be for \$1M but your organization will only receive \$900K in funds and you have to match the remaining \$100K (allowable costs or in-kind contributions).
- **Level of Effort** – requirement for a specified level of service or expenditure.
- **Earmarking** - requirements that specify the minimum and/or maximum amount or percentage of the program funding that can be used for specific activities.



Period of Availability

- Pertains to the funding period (Award term)
 - Certain awards may specify a period of time (usually 60 – 90 days) in which to liquidate all obligations incurred during the funding period.
 - Additionally, in certain circumstances, unobligated funds may be carried forward at the authorization of the grantor to be used against obligations in subsequent funding periods.



Procurement, Suspension & Debarment

- **Procurement** - Non-profits should use procurement procedures that conform to applicable Federal Law found in [Circular A-110](#).
- **Suspension and debarment** – your organization cannot contract with or make sub-awards to other organizations whose principals are suspended or debarred.
 - [Excluded Parties List System](#)

Program Income

- Gross income that is directly generated from the federal program
 - Example – Insurance Co-Pays for mental health services.
 - Could also include interest on loans made with grant funds.
 - Program income usually 1.) deducted from outlays, 2.) added to project budget or 3.) used to meet matching requirements.



Real Property Acquisition and Relocation Assistance

- Uniform and equitable treatment of persons displaced by federally-assisted programs from their homes, businesses or farms.
 - Payments may be related to property acquisitions, relocation assistance, replacement housing payments and business relocation.



Reporting

- **Financial Reports**

- Financial Status Report SF 425/425A.
- Request for Advance or Reimbursement SF-270.
- Outlay Report and Request for Construction Reimbursement SF-271.

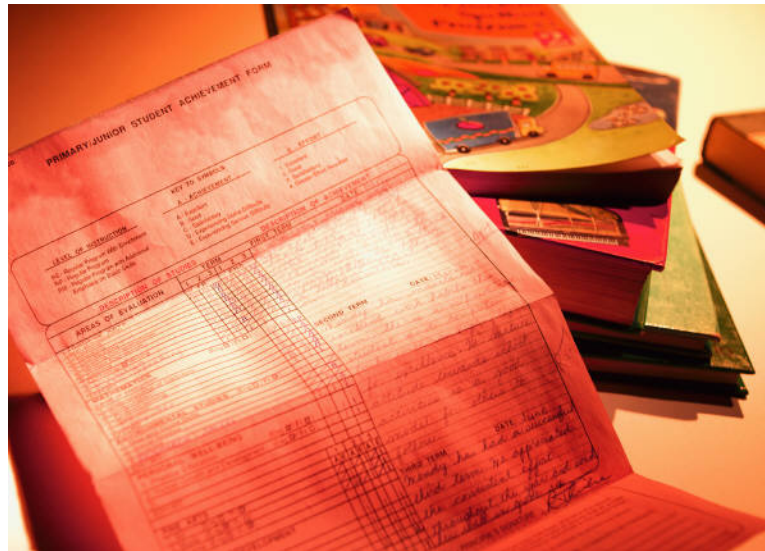
- **Performance Reports & Special Reports**

- Comparison of accomplishments with goals and objectives of award. Also may be used by granting agency to allocate funds for the future.



Reporting, continued

- [Reporting under the American Recovery & Reinvestment Act](#)
- Take a look at [Memorandum M-10-14 and M-10-17](#) which discusses some key provisions and updated compliance for grantees when reporting under Recovery Act Funds



Sub-recipient Monitoring

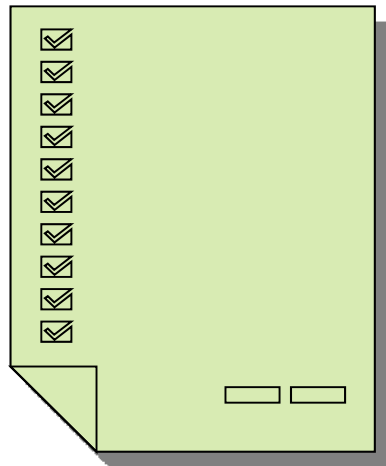
- Award identification
 - Identify federal award information to sub-recipient.
- During-the-award monitoring
 - Continuously monitor sub-recipient use of awards through site visits, regular contact or other means.
- Sub-recipient audits
 - Sub-recipient to qualify for single audit if they expend \$500K or more in federal funds.
- Pass-through entity impact
 - Monitoring how sub-recipient activities affect pass-through entities ability to comply with applicable Federal law.

Special Tests and Provisions

- Look up CFDA # of grant in Part 4 (Agency) of the Compliance Supplement for specific special tests and provisions.
- Look to your grant award for indication of any special tests or provisions you will have to comply with under the agreement.

Review of Sections of Compliance Supplement

- Part 5 – Clusters of Programs
 - A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements.
 - The 2010 Compliance Supplement contains updated guidance for ARRA awards.
 - Many of the ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program resulting in these awards being considered a Cluster with similar existing awards.



Internal Controls – COSO Framework (Part 6 of the Compliance Supplement)

- COSO Framework (**CRIME**) – [Part 6 of the Compliance Supplement](#)
 - (Part 6 is organized by type of Compliance Requirement)



- **C**ontrol Activities (Policies and procedures to help ensure management's directives are carried out.)
- **R**isk Assessment (The entity's identification and analysis of risks relevant to achievement of its objectives and how they should be managed.)
- **I**nformation and Communication (Identification, capturing and exchange of information in form and time that enable people to carry out responsibilities.)
- **M**onitoring (Assesses the quality of internal control performance over time.)
- **C**ontrol **E**nvironment (Sets the tone at the top. It is the foundation for all the other components of internal control.)

Internal Controls – COSO Framework (Part 6 of the Compliance Supplement, Continued)

- COSO provides a framework for organizations to design, implement and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.
- [Part 6](#) describes characteristics of internal control relating to each of the five components of internal control that should reasonably ensure compliance with the requirements of Federal laws, regulations and program compliance requirements.

Internal Controls – COSO Framework (Part 6 of the Compliance Supplement, Continued)

- It may not always be necessary to identify key controls in each of the five components of internal control.
- The organization may have other key controls in place other than as listed in Part 6 of the compliance supplement.



COSO PYRAMID



COSO CUBE

Lets look at an example on the next two slides!

L. REPORTING ←

Control Objectives

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Control Environment

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management's attitude toward reporting promotes accurate and fair presentation.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.

Risk Management

- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards.
- Identification of underlying source data or analysis for performance or special reporting that may not be reliable.

Control Activities

- Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

Information and Communication

- An accounting or information system that provides for the reliable processing of financial and performance information for Federal awards.

Monitoring

- Communications from external parties corroborate information included in the reports for Federal awards.
- Periodic comparison of reports to supporting records.

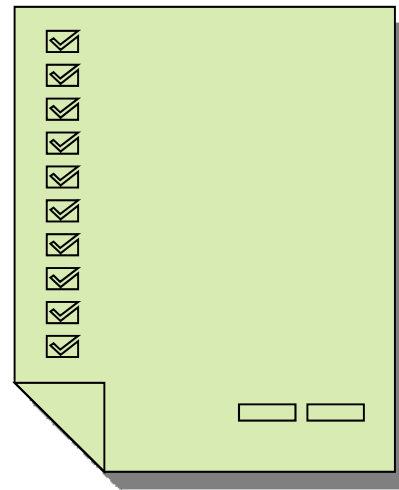
An Example of **CRIME** for the Reporting Compliance area of COSO can be found on the next slide which shows the Control Environment area and key controls that an organization could have in place.

Internal Controls – COSO Framework (Part 6 of the Compliance Supplement, Continued)

	Control in Place at Organization	Key Control (Y/N) *
Control Activities		
<ul style="list-style-type: none"> • Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments. 	Program XYZ Policy #1234 dictates reporting policies related to this federal program	Yes
<ul style="list-style-type: none"> • Tracking system which reminds staff when reports are due. 	A report guide is prepared once the grant award has been reviewed by the Program Manager. The guide sheet is distributed to all program staff. The report guide sheet includes the dates the various stages of report preparation are due and sign offs needed (compilation of report data, final tie out to G/L, review by Program Manager, etc.) Additionally, the internal audit team selects a sample of reports during the fiscal year and ensures the reports were completed and approved at the respective stages as outlined on the report guide sheet.	Yes
<ul style="list-style-type: none"> • The general ledger or other reliable records are the basis for the reports. 	The final report submission includes a reference to the accrual basis GL account which indicates the basis for the report financial data.	Yes
<ul style="list-style-type: none"> • Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports. 	Each report indicates a final sign off by the Program Manager and Controller	Yes
<ul style="list-style-type: none"> • The required accounting method is used (e.g., cash or accrual). 	The reports are compiled using the accrual General Ledger	Yes

Review of Sections of Compliance Supplement

- Part 7 – Guidance for auditing programs not shown in the Matrix at Part 2.
 - Your first resource if you have a major program not listed in Matrix at Part 2.
 - Will help you determine which of the 14 compliance requirements is applicable along with review of your grant award.



Schedule of Expenditures of Federal Awards

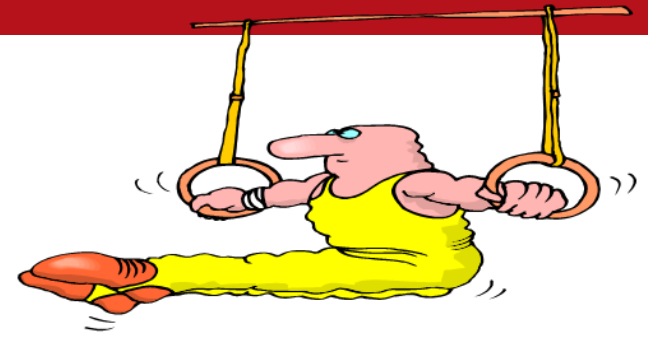
Schedule of Expenditures of Federal Awards (SEFA) – Best Practices

- Have the award document readily available for the auditors including amendments or addendums.
- Ensure that you have agreed the awarding agency, award term, pass-through agency & pass-through agency grantor # (if applicable), CFDA #, name of program, grant award number, award amount and total awards expended during the fiscal year to the grant document, CFDA Website, pass-through entity information and your accrual basis General Ledger as applicable.
 - If your awards do not correspond with your fiscal year, make sure you list out the award years related to the fiscal year expenses on your SEFA.

Schedule of Expenditures of Federal Awards - Example

Single Audit and Major Program Determination Worksheet Financial Awards Worksheet							
For the year ended June 30, 2009							
Name of Agency or Department	Award Term	Pass-through Agency	CFDA or Other No.	Name of Program	Grant I.D. No.	Award Amount	Total Awards Expended
US Dept of Health and Human Services	1/1/08 - 12/31/08	State of California	CFDA #93.224, Grantor's Pass-through #09.2345	Consolidated Health Centers Program	2008.XXXX	\$ 1,000,000	\$ 895,000
						-	
						1,000,000	895,000
US Dept of Health and Human Services	1/1/09 - 12/31/09	State of California	CFDA #93.224, Grantor's Pass-through #09.2345	Consolidated Health Centers Program	2009.XXXX	\$ 500,000	\$ 456,000
						-	
						500,000	456,000
US Dept of Health and Human Services	7/1/08 - 6/30/09		CFDA #93.268	Immunizations Grant Program	2009.4567	\$ 200,000	\$ 135,000
						-	
						200,000	135,000
US Dept of Health and Human Services	7/1/08 - 6/30/09		CFDA #93.558	Temporary Assistance for Needy Families (TANF) State Programs	8945XTS	\$ 850,000	\$ 800,000
						-	
						850,000	800,000
US Dept of Health and Human Services	7/1/08 - 6/30/09		CFDA #93.714	ARRA - Emergency Contingency Fund for Temporary Assistance to Needy Families (TANF) State Programs	3459OKL	\$ 600,000	\$ 598,000
						-	
						600,000	598,000
US Dept of Health and Human Services	7/1/08 - 6/30/09		CFDA #93.716	ARRA - Temporary Assistance for Needy Families (TANF) Supplemental Grants	67YUMN	\$ 2,500,000	\$ 2,200,000
						-	
						2,500,000	2,200,000
Total Financial Awards, All Programs						\$ 4,628,000	

Best Practices



- Review your award agreement
 - Make sure you understand how it is to be used.
 - Make sure you have all necessary information for your Schedule of Expenditures of Federal Awards.
- Determine what types of compliance requirements are applicable to each one of your awards.
 - Examine award agreement in conjunction with Part's 2, 4 and 7 (if applicable) of the compliance supplement.
- Identify key controls related to the 5 components of internal controls (and other key controls) – make sure these controls are part of your accounting policy manuals and communicated to program managers and staff.
- Visit omb.gov often!!!!

Resources

- [Omb.gov](http://omb.gov) (Office of Management and Budget)
- [Federalreporting.gov](http://federalreporting.gov) (Reporting For Recovery Act Funds)
- [Cfda.gov](http://cfda.gov) (Catalogue of Federal Domestic Assistance)
- [Ecftr.gpoaccess.gov](http://ecfr.gpoaccess.gov) (Electronic Code of Federal Regulations)



For Questions Please Contact

Stacie Kowalczyk

Assurance Manager

Burr Pilger Mayer, Inc.

600 California Street, Suite 1300

San Francisco, CA 94108

Direct: 415 288 3566

Main: 415 421 5757

Fax: 415 288 6288

www.bpmcpa.com

skowalczyk@bpmcpa.com

