

# Successfully Navigating the Single Audit Process

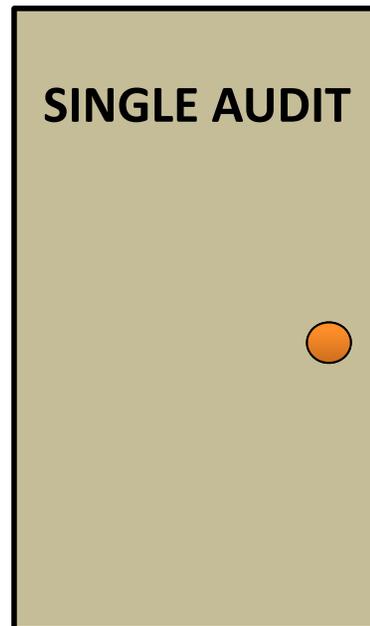


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# SUCCESSFULLY NAVIGATING THE SINGLE AUDIT PROCESS

*What's Behind the Single Audit Door?*



## Recap A-133 Overview

- Single Audit is two-fold - Financial and Compliance
- Uses a risk-based audit approach
- Cost effective way to obtain audits because one audit is conducted instead of multiple audits of individual programs



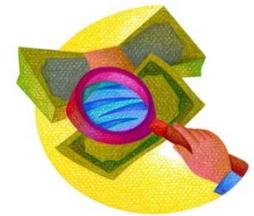
# What Should I Expect?

- **What the Auditors Will Do**
  - Understand the programs you manage
  - Understand the risk profile of your programs
  - Understand your control environment
  - Understand your process and compliance controls
  - Test your controls
  - Test cash receipts and disbursements and cost allocations
  - Test specific requirements
  - Review reports
  - Report on the results of the procedures above
- **Purpose of the Work**
  - Determine your compliance with program requirements
  - Assess your control and compliance environment
  - Compliance is based on process controls and test of specifications
  - Negative assurance on compliance



# What Do the Auditors Do?

- Review documents
- Interview management and processors
- Test transactions and results
- Confirm or verify facts
- Discuss their observations, findings and questions
- Provide a formal exit meeting
- Provide a draft of their findings



# What You Should Get From the Process

- Insight into the program requirements
- Recommendations and observations for improvement in:
  - Control environment
  - Internal and compliance controls
  - Program compliance and reporting
- Comfort on managing the program



# Single Audit Test of Controls is Built On Foundation of Government Audit

## Single Audit

- Understanding of controls over Federal compliance requirements to support a low assessed level of control risk over major programs
- Required report and schedule of findings

## GAS

- Added requirement on safeguarding controls and controls over compliance with laws and regulations
- Require report and written significant deficiencies and material weaknesses

## GAAS

- Obtain understanding of internal controls over financial reporting sufficient to plan audit
- Understand controls; whether in place, whether operating
- Report oral or written significant deficiencies and material weaknesses



# Internal Control

A process designed to provide reasonable assurance of achieving the following:

- Effective and efficient operations
- Reliable financial reporting
- Compliance with laws, rules, regulations and guidelines



# What Are We Looking for Controls to Do?

- Prevent or detect material noncompliance
- Initial assessment to be at low controlled risk
- Final analysis does not need to be at a low level of controlled risk



# Types of Controls

## **Pervasive Controls -**

Controls around the process, i.e., separation of duties, supervision, hiring, training, skills

## **Specific Controls -**

Preventative -

Stop error from occurring

Detective -

Identify and notify that an error has occurred

## **Monitoring Control -**

Identify when a preventative or detecting control is not working



# Assessment of Risk

- **General Risk Consideration**
  - Experience
  - Length of time
  - Effect of non compliance
  - Routine/non-routine transaction
  - Estimate or judgment



# Assessment of Risk

- **Inherent Risk** - risk that material noncompliance with a major program's compliance requirements could occur, assuming there are no related controls.
  - **Factors to consider:**
    - Size of the program
    - Program maturity
    - Complexity
    - Extent of contracting
    - Other factors
    - Subrecipients
    - Level of oversight
    - Prior audit findings
    - Identified as high risk



# Assessment of Risk

- **Control Risk** - risk that material noncompliance that could occur in a major program will not be prevented or detected on a timely basis by the program's internal control.
- **Fraud Risk** - risk that intentional material noncompliance with a major program's compliance requirements could occur.



# Assessment of Risk

- **Detection Risk** - risk that the audit procedures will lead to the conclusions that noncompliance that could be material to a program doesn't exist when in fact it does exist.

- **Factors to consider:**

- Inherent risk
- Control risk
- Fraud risk



# Areas to Review for Compliance

- A Activities allowed or unallowed
- B Allowable costs/cost principles
- C Cash management
- D Davis-Bacon Act
- E Eligibility
- F Equipment and real property management
- G Matching level of effort, earmarking
- H Period of availability of Federal funds
- I Procurement and suspension and debarment
- J Program income
- K Real property acquisition/relocation assistance
- L Reporting
- M Subrecipient monitoring
- N Special test and provision (control procedures not listed)

Note: Does not have to use those in the compliance supplement or all of them, and should use others when they are more appropriate.



# What Does Compliance Mean?

- Effective management of public funds to maximize outcomes
- The avoidance of fraud, mismanagement, and poor management of Federal funds
- Adherence to laws, rules and regulations
- Check and balances - internal controls
- Stewardship of Federal funds



# Why We Have Problems with Compliance

- Lack of understanding by staff of roles and responsibilities
- Inadequate resources
- Incomplete, outdated or nonexistent policies and procedures
- Inadequate staff training and education



# Why We Have Problems with Compliance

- Inadequate systems
- Lack of documentation and audit trail to support claimed expenses
- Perception that internal control systems are not necessary



# Compliance: Back to the Basics

- Do the right thing...from the start!!!
- Keep policies current with Federal requirements
- Perform risk assessments and implement adequate internal controls



# Compliance: Back to the Basics

- Develop a continuing training program
- Monitor first, audit second

*COMMUNICATE, COMMUNICATE, COMMUNICATE!!!*

*With employees and Federal Agency*

*DOCUMENT, DOCUMENT, DOCUMENT!!!*

*Always remember, if you didn't write it down, it didn't happen*



# Type of Control Weaknesses

<b>Significant Deficiency</b>	<p><i>Quantitative Deficiencies</i> - Any internal control related findings quantitatively less than the Program Tolerable Noncompliance should be classified as a Significant Deficiency to the program.</p> <p><i>Qualitative Considerations</i> - Documentation of the rationale for any qualitative considerations used in this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>
<b>Material Weakness</b>	<p><i>Quantitative Considerations</i> - Any internal control related findings quantitatively equal to or greater than the Program Tolerable Noncompliance should be classified as a Material Weakness in the program.</p> <p><i>Qualitative Considerations</i> - There may be instances, based on auditor judgment, where internal control related findings that quantitatively would not be considered material, may be deemed material weaknesses by the auditor based on the nature of the finding. Documentation of the rationale for this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>



# Type of Compliance Finding

<b>Material Noncompliance</b>	<p><i>Quantitative Considerations</i> - Any noncompliance quantitatively equal to or greater than the Program Tolerable Noncompliance should be classified as Material Noncompliance to the program.</p> <p><i>Qualitative Considerations</i> - There may be instances, based on auditor judgment, where noncompliance that quantitatively would not be considered material, may be deemed material noncompliance by the auditor based on the nature of the finding. Documentation of the rationale for this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>
<b>Noncompliance</b>	<p><i>Quantitative Considerations</i> - Any internal control related findings quantitatively less than the Program Tolerable Noncompliance should be classified as Noncompliance to the program.</p> <p><i>Qualitative Considerations</i> - Documentation of the rationale for any qualitative considerations used in this type of assessment/conclusion should be documented in the Findings Assessment Worksheet and evaluated by AOA.</p>



## A-133 Compliance: WHY... Do We Care?

- Findings are reported to Federal government and become public record, distributed to all Federal Agencies through a clearing house.
- Federal and Non-Federal sponsors look at A-133 as a 'report card' of how we spend their money.



## **A-133 Compliance: WHY... Do We Care?**

- It strengthens the relationship of trust that exists between the sponsor and recipient
- It suggests a presence of the stewardship necessary to properly safeguard the Federal Government's investment in programs



## A-133 Compliance: WHY... Do We Care?

- Negative publicity, may cause harm to reputation and prestige
- May cost \$ millions in payback
- Loss of Federal expanded authorities, additional oversight burden



# Direct Versus Indirect Costs

## Direct Costs:

- Can be identified with a specific project or activity relatively easily with a high degree of accuracy
  - Direct Salaries & Wages
  - Materials & Supplies
  - Consultants & Subcontractors



# Direct Versus Indirect Costs

## Indirect Costs:

- Referred to as Facilities & Administrative costs
- Indirect costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular project or activity
  - Fringe Benefits
  - Overhead
  - G & A



# Definition of Grant

- Purpose is to transfer money, property, services or anything of value to recipient in order to **accomplish a public purpose.**
- No substantial involvement is anticipated between government and recipient during performance of activity.



# Definition of Pass-Through Entity

- A Non-Federal Entity that provides a Federal award to a subrecipient to carry out a Federal program



# Subrecipient Versus Vendor

## Subrecipient:

- A Non-Federal Entity that expends Federal awards received from a pass-through entity to carry out a Federal program
- Has performance measured against whether the objectives of a Federal program are met



# Subrecipient Versus Vendor

## Subrecipient:

- Has responsibilities for programmatic decisions
- Is responsible for complying with Federal program requirements
- Uses Federal funds to carry out a program as compared to providing goods or services for a program



# Subrecipient Versus Vendor

## Vendor:

- Provides goods and services within normal business operations
- Operates in a competitive environment
- Provides similar goods or services to many different purchasers



# Subrecipient Versus Vendor

## Vendor:

- Retains no rights to intellectual property
- Provides the goods or services that are required for the conduct of a Federal program but are ancillary to the operation of the Federal program
- Is not subject to compliance requirements of the Federal program

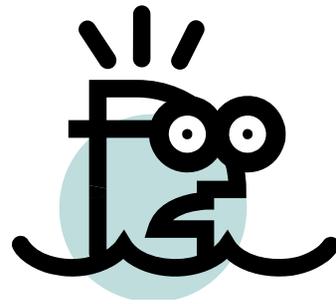


# How Do I Prepare?

- Know your program requirements
- Have documents available
- Understand your procedures
- Understand the specific single audit compliance requirements
- Know the status of prior audit findings and recommendations



# You Will Survive!!!



# Contact Information

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