Single Audit Discussion
How to be Prepared for Your Single Audit

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What Auditors are Required to Do Under A-133, What We Need from Management, and How it Affects You

- Definition of Federal Award

- Obtain SEFA from Client

- Complete Risk Assessment / Determine Major Programs
  - Type A/B Programs
  - High Risk Program Indicators
  - Percentage of Coverage Rules
  - Obtain Understanding of Major Program

What Auditors are Required to Do Under A-133, What We Need from Management, and How it Affects You
(continued)

- Test Major Program
  - Design of Internal Controls / Walk-through
  - Elements of COSO

- Compliance with Grant Regulations and Effectiveness of Internal Control
  - Federal Compliance Supplement
    - 14 Compliance Requirements
    - Common Areas for Findings (with reference to regulation)

- Develop Reports on Compliance and Control
  - Evaluate Findings

Audit Scope and Objectives of an A-133 Single Audit

- Conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS)

- Covers entire operations of the entity

- Financial statements are presented fairly

- Adequate internal control structure

- Compliance with laws and regulations

- Follow-up on prior audit findings

When is A-133 applicable?

- When an entity expends federal awards (either direct or indirect awards) in excess of $500,000 they are subject to the provisions of OMB Circular A-133.

- What qualifies as a Federal Award?

Definition of Federal Award

- Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities.

    - It does not include procurement contracts, under grants or contracts, used to buy goods or services.

    - Analysis completed by the client to determine if a vendor relationship exists.

Examples of Federal Assistance

- 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

Schedule of Expenditures of Federal Awards (SEFA)

- Prepared by management

- Includes all activities from previous slide

- Reconciles to the general ledger

- Specify pass-through awards

- Include CFDA or identifying number for each grant

- Auditor uses this document to perform risk assessments and selection of major programs
  - Completeness critical to avoid overtesting or missed programs

Cluster Consideration

- Similar requirements but different CFDA numbers can be clustered

- Treated as one program for major program determination and testing

- Awards with the same CFDA number will also be clustered together

- Most common:
  - Research and Development
  - Student Financial Aid
  - Homeland Security
  - Special Education

- Part 5 of the Compliance Supplement for information on clusters
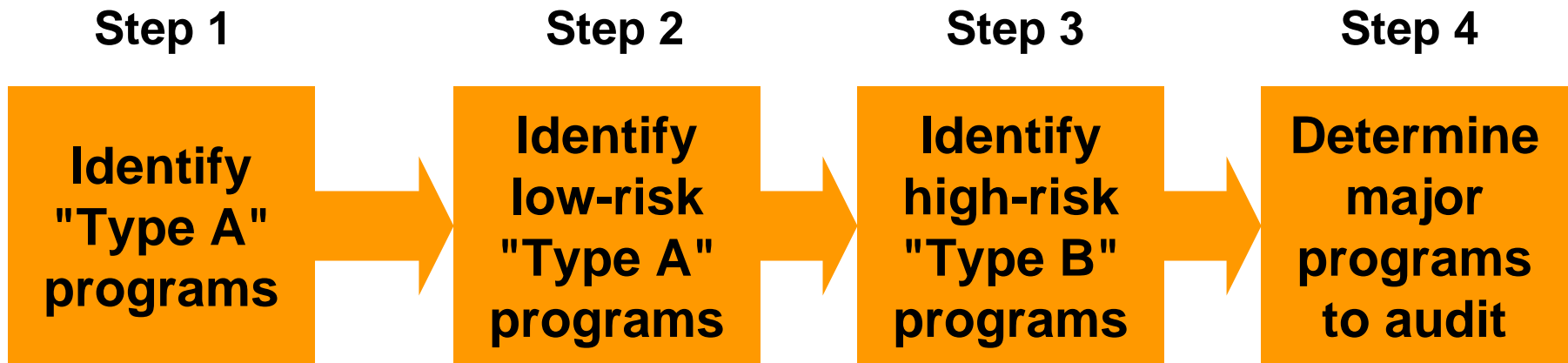
Risk Assessment and Major Program Determination

- Determine if entity is a low risk auditee
  - Considerations for the two preceding years include:
    - A-133 audit performed
    - Unqualified opinion on SEFA
    - No Material Weaknesses noted
    - No compliance findings that have a material impact on the major program.

- Low risk auditee determination dictates coverage of SEFA required to be obtained by the auditor.
  - Low Risk Auditee = 25%
  - High Risk Auditee = 50%

After this is determined, auditor can begin the process of selection of major programs.

Risk Assessment and Major Program Determination
(continued)

- Risk–Based Approach:

Step 1	Step 2	Step 3	Step 4
Identify "Type A" programs	**Identify low-risk "Type A" programs**	**Identify high-risk "Type B" programs**	**Determine major programs to audit**

Risk Assessment and Major Program Determination
Step 1 – Identify Type A Programs

- Federal programs where total expenditures under the program exceed the larger of:
  - $300,000 or 3% of total Federal expenditures where total Federal expenditures are > $300,000 AND < $100 million

Programs not deemed Type A are Type B

Risk Assessment and Major Program Determination
Step 2 – Identify Low Risk Type A

- Considerations for Low Risk:
    - Audited as a major program in preceding 2 years
    - Any audit findings noted in last audit
    - Oversight agency deems high-risk
    - Auditor judgment
        - Current and prior audit experience
        - Major changes in program regulation, personnel or systems

All Type A's that are not Low Risk are deemed High Risk

Risk Assessment and Major Program Determination
Step 3 – Identify High Risk Type B

- Type B programs are those that exceed $100,000 that are not Type A programs

- Perform risk assessments on the items noted above

- Considerations for High Risk:
  - Weakness in internal control over compliance
  - Skill level of those responsible for program compliance
  - Administration under multiple internal control structures
  - System for monitoring sub-recipients
  - Information systems utilized
  - Prior audit findings
  - Audited as a major program in the past
  - Reviews by oversight agency or pass-thru entity completed recently
  - Auditor judgment

Risk Assessment and Major Program Determination
Step 4 – Identify Major Programs

- Major programs will be:

  - All Type A programs except those identified as low-risk in Step 2 (i.e., high-risk Type A)

  - Type B programs identified as high-risk in Step 3 using 1 of 2 options (discussed on next slide)

  - Such additional programs necessary to comply with 50% rule or 25% if low-risk auditee

- Option 1:

  - At least ½ of Type B programs identified as high-risk under Step 3

- Option 2:

  - One high-risk Type B program for each low-risk Type A program used under Step 2

Obtaining an Understanding of Major Programs

- Compliance Supplement – Parts 2, 3, 4 and 7

- Review grant documents
  - Determine key elements
    - Amount
    - Timing
    - Applicable compliance requirements
    - Indirect cost considerations
    - Regulations

- Expenditure Patterns
  - Wages, benefits, equipment, etc.

- View Handout: Grant Coversheet

Other Planning Considerations

- Discussion with oversight agency
  - Review reports issued during the year

- Follow up on status of prior audit findings

All Compliance Requirements?

- Do auditors look at all applicable compliance requirements?
  - No
  - Direct and material compliance requirements
- Should an auditee comply with all applicable compliance requirements?
  - Yes
  - Do not try to predict an auditor's scope

Compliance Requirements

- Activities Allowed or Unallowed (A)
  - Specifies the activities that can or cannot be funded under a specific program

- Allowable Costs / Cost Principles (B)
  - Specifies the costs that can and cannot be funded under a specific program and how they are calculated and supported

- Cash Management (C)
  - Reimbursements are properly supported
  - Advance payments are properly managed
  - Interest is earned on advance payments is inconsequential

- Davis-Bacon Act (D)
  - Contractors are paid the prevailing wages of the local department of labor

Compliance Requirements (continued)

- Equipment and Real Property Management (F)
  - Management, use and disposal of equipment or real property

- Matching, Level of Effort, Earmarking (G)
  - Matching, required cost share
  - Level of effort, required participation from period to period
  - Earmarking, setting aside funding for a purpose

- Period of Availability of Federal Funds (H)
  - Expenditure are within the granting period
  - Claims have been made within a reasonable about of time after the granting period

- Procurement and Suspension and Debarment (I)
  - Federal, state or local procurement laws are followed
  - Vendors and sub-recipients are not suspended or debarred

Compliance Requirements (continued)

- Program Income (J)
  - Income generated by Federal funds are used for program expenditures
  - Income generated by Federal program offset Federal claims
- Real Property Acquisition and Relocation Assistance (K)
  - Equal treatment by persons displaced by the Federal government
- Reporting (L)
  - Reporting results
    - Performance
    - Financial
    - Special reporting
- Sub-recipient Monitoring (M)
  - Monitoring pass-through funding
- Special Tests (N)
  - Other

What is a Direct and Material Compliance Requirement?

- First thing is first, what compliance requirements are applicable?
  - Part 2 – Matrix of Compliance Requirements
  - Part 7 – Guidance for Auditing Programs Not Included

- Very subjective, meaning
  - Personal views / auditor judgment
  - Experience
  - Accepted risk
  - Industry expectation

- Qualitative and quantitative factors

Qualitative Factors

- Federal, state, local oversight

- Internal or other external audits

- Findings

- Obvious need for compliance
  - Allowability
  - Cash management
  - Eligibility
  - Reporting

Quantitative Factors

- Materiality assessments
    - For example: 5% of expenditures, +/- 1 day, etc.
    - Auditor's tolerance, not an auditee concept

Tips for the Grant Manager

- Gather and summarize grant information
  - Clean and organized records give auditors comfort

- Document your policies and procedures
  - Documentation drives quality and compliance

- Know where to find the OMB A-133 Compliance Supplement

Approaching a Compliance Requirement

- Who is responsible for the compliance requirement?

- Analyze internal control using COSO

- Design test of internal control over compliance

  - Sample size
  - Key controls

- Design test of compliance

Analyzing Internal Control

- OMB A-133 requires us to plan our audit to obtain a "low" control risk
  - That is controls that "operate effectively"
  - Reliable controls

- How do we get to "low" control risk?
  - Document our understanding
  - Test control design
  - Test control effectiveness

Understanding

- We are required to document our understanding of <u>your</u> internal controls over grant programs using the COSO framework

Control Activities

You should be able to answer the following questions when asked:

- How are you certain your organization is in compliance with (insert specific compliance requirement)?

This question flushes out the <u>control activities</u>.

Risk Assessment

- How did you learn that (control activity) was necessary to ensure compliance?

  This question flushes out the <u>risk assessment component</u>.

Information and Communications

- How and when do you notify people the (control activity) is required?

  This question flushes out the <u>information and communication</u> component.

Monitoring

- What is the process used to ensure the (control activity) is performed correctly and consistently?

This question flushes out the <u>monitoring</u> component.

Auditors cannot be part of the auditee's internal controls!

Control Environment

- A summary of the other control components is the control environment?
  - What is management attitude about controls?
  - By looking at the answer to the other questions, we can get real insight on management's attitudes

Exercise

- Think about one of your programs

- Pick a compliance requirement

- Take 5 minutes and see if you can answer the questions

Use the document in your materials?

The Good, The Bad and The Ugly

- Testing internal controls and compliance require sampling
  - *The Good* – auditors do not test every transaction
  - *The Bad* – the transactions tested have significant meaning
  - *The Ugly* – errors equal findings or more testing which translates in more time and more money

Internal Control Testing

- Test of design
  - Walkthrough of our understanding
  - Conclusion: Control have been implemented

- Test of effectiveness
  - Select a sample and test control attributes
  - Conclusion: Control is effective

- Control must be effective or you should have a finding

- Yeah! But . . . "I have this other control!"

Compliance Testing

- If controls are effective, sample sizes are similar if not the same for compliance testing

- If controls are not effective, sample sizes need to be <u>significantly increased</u> to determine compliance

Tips for Grant Managers

- Document your controls using COSO

- Make sure everyone in your organization knows your control system

- Periodically, review the internal control system and see if it is working

- Closely monitor new employees for strict compliance with policies

First Step to Compliance

Which Circular Do I Follow?

Although there are six grant circulars, you are only covered by three of them, depending on type of entity:

States, local governments, and Indian Tribes follow:

- A-87 for cost principles, Relocated to 2CFR, Part 225
- A-102 for administrative requirements (common rule), and
- A-133 for audit requirements

Educational Institutions (even if part of a State or local government) follow:

- A-21 for cost principles, Relocated to 2CFR, Part 200
- A-110 for administrative requirements, Relocated to 2 CFR, Part 215, and
- A-133 for audit requirements

Non-Profit Organizations follow:

- A-122 for cost principles, Relocated to 2 CFR, Part 230
- A-110 for administrative requirements, Relocated to 2 CFR, Part 215 and
- A-133 for audit requirements

Effort Reporting

- Cost principles for not-for-profits are found in A-122 Attachment B 8(m)
  - Amount must be from documented payrolls approved by responsible officer supported by after-the-fact personal activity reports

- Cost principles for Governments are found in A-87 Attachment B 8(h)
  - One cost center – approval by responsible official
    - Complete semi-annual personal activity report
  - Multiple cost centers – personal activity report

- Cost principles for hospitals can be found at 45CFR Appendix E to Part 74 "Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals"

Effort Reporting (continued)

- In not-for-profits, the personal activity reports must:
  - Reflect after the fact actual effort (no budget estimates)
  - Account for total activity of the employee
  - Be signed by employee or direct supervisor with first hand knowledge
  - At least monthly and coincide with one or more pay periods

- In Governments, the personal action report must:
  - Reflect after the fact actual effort (no budget estimates)
  - Account for total activity of the employee
  - Be signed by employee
  - At least monthly and coincide with one or more pay periods

Sub-recipient Monitoring

- Document Sub-recipient vs. Vendor A-133 .210
  - Determine eligibility
  - Performance measured against Federal program objectives
  - Programmatic decision-making
  - Responsibility to adherence to Federal compliance requirements
  - Carryout program of organization

                    vs.

  - Provides goods and services in normal course of business
  - Provides similar goods/services to many different purchasers
  - Operates in competitive environment
  - Goods/services are ancillary to operation of the Federal Program
  - Not subject to compliance requirements

Sub-recipient Monitoring (continued)

- Pass-through Entity Responsibility A-133 .400
  - Identify CFDA # for each Sub-recipient
  - Advise Sub-recipient of Federal requirements
  - Monitor activities of Sub-recipient
  - Ensure that Subs that spend more than $500,0000 have single audit
  - Make management decisions on all findings within 6 months of issuance
  - Consider impact on own records of Subs' findings
  - Require Subs to permit access to records
  - Keep Subs' report submissions

Procurement

- Institutions of higher education, hospitals, and other NPO's shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110

- Governments follow grants management common rule

Common Rule 45 CFR 92.36 and A-110

- Follow own procurement standards

- Contract administrative system

- Written code of conduct

- Avoid unnecessary/duplicative purchases

- Encourage intergovernmental agreements

- Use excess Federal surplus property

- Use value engineering

- Use only responsible contractors

- Maintain records documentation
  - Rationale for method procured
  - Selection of contract type
  - Contractor selection
  - Basis for price (analysis)

Common Rule 45 CFR 92.36 and A-110 (continued)

- Limit time and materials contracts

- Sound business judgement

- Include protest procedures

- Competition – full and open with no:
  - Unreasonable requirements
  - Unnecessary experience or bonding
  - Non-competitive awards to consultants on retainer
  - Specifying "brand name"
  - Arbitrary actions in procurement process

Common Rule 45 CFR 92.36 and A-110 (continued)

- Methods
  - Small purchase (less than $100,000 GOV $25,000 NFP) (adequate price quotes)
  - Sealed bids – fixed fee
    - Adjustable
    - Open public
    - Lowest responsible bidder
    - Reasons for rejection
  - Competitive proposal
  - Non-complete proposal
    - Single source
    - Emergency
    - Authorized by funding source

Suspension & Debarment

- Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred

- Verify status of these parties by using the *Excluded Parties List System (http://epls.arnet.gov)*

Cash Management

- Reimbursement of funds:
  - Program costs must be paid using entity funds prior to requesting reimbursement

- Advancement of funds:
  - Procedures need to be in place to minimize time between receipt of funds from U.S. Treasury and disbursement

- Interest:
  - Interest earned on advances is required to be submitted promptly (but at least quarterly); $100 may be kept for administrative expenses

Allowable Costs

- To be allowable, a cost must:
  - Be reasonable for the performance of the award and be allocable in accordance with A-122, A-87 or A-21
  - Conform to any limitations or exclusions set forth in A-122, A-87 or A-21
  - Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization
  - Be accorded consistent treatment
  - Be determined in accordance with GAAP
  - Not be included as a cost of any other federally financed program
  - Be adequately documented
  - Be net of all applicable credits

Allowable Costs – Direct Cost

- Direct costs are those that can be identified specifically with a particular final cost objective

- Certain directs costs are allowable for computing charges to Federal awards and must be allocated their share of indirect costs if they represent activities that a) include salaries, b) occupy space, c) benefit from the organization's indirect costs

Sample Items of Cost

Selected Cost Item	Under OMB Circular A-122
Advertising/Public Relations	Allowable with restrictions
Alcoholic Beverages	Unallowable
Bad Debt	Unallowable
Communications	Allowable
Donations and contributions	Unallowable
Depreciation and use	Allowable with specification
Entertainment	Unallowable with qualifier
Fines and penalties	Unallowable with exception
Labor relations	Allowable
Lobbying	Unallowable
Maintenance/repair	Allowable with restrictions

Sample Items of Cost (continued)

Selected Cost Item	Under OMB Circular A-122
Meetings/Conferences	Allowable
Pension plans	Allowable with restrictions
Professional services	Allowable with restrictions
Rent of building/equip	Allowable with restrictions
Selling and marketing	Unallowable
Taxes	Allowable with restrictions
Training and education	Allowable with limitations
Travel costs	Allowable with restrictions

Matching, Level of Effort, Earmarking

- ***Matching*** or cost sharing includes requirements to provide contributions of a specified amount or percentage to match Federal awards

- Specific matching requirements are unique to each Federal program
  - Found in laws, regulations, and provisions of contract or grant agreements

- Basic criteria for acceptable matching costs:
  - Are verifiable from the non-Federal entity's records
  - Are not included as contributions for any other federally assisted program
  - Are necessary and reasonable
  - Are allowed under the applicable cost principles
  - Are not paid by the Federal Government under another award
  - Are provided for in the approved budget
  - Conform to other applicable provisions of the A-102 common rule, OMB Circular A-110, and the laws, regulations, and provisions of contract or grant agreements applicable to the program

- In-kinds
  - Documented and valued on acceptable basis

Matching, Level of Effort, Earmarking (continued)

- **_Level of effort_** includes requirements for:
  - a specified level of service to be provided from period to period,
  - a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and
  - Federal funds to supplement and not supplant non-Federal funding of services

- **_Earmarking_** includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to sub-recipients

Equipment & Real Property Management

- Equipment Management:
  - Equipment must be used in the program for which it was acquired
  - Equipment records must be maintained and identify the assets that were acquired with Federal funds
  - Physical inventory of equipment must be taken once every two years & be reconciled to the equipment records
  - Equipment shall be adequately maintained and safeguarded

- Real Property Management:
  - Real property shall be used for the originally authorized purpose
  - Approval may be obtained to use that property in other federally sponsored projects or programs
  - Consent of the awarding agency is required to dispose or encumber the title to the real property

Equipment & Real Property Management (continued)

- Sale of equipment:
  - Competition to the extent practicable

- Sale of real property:
  - Competition to the extent practicable
  - Non-Federal entities are generally required to remit to the awarding agency the Federal portion of net sales proceeds

Auditor's Classification of Finding

- Internal Control Findings
  - Deficiency
  - Significant Deficiency
  - Material Weakness

- Compliance Findings
  - Not Material Finding (known / likely QC over $10,000)
  - Material Finding
    - Scope Restriction
    - Qualified Opinion
    - Adverse Opinion
    - Disclaimer
  - Known Fraud
  - Material Misrepresentation in Client's Status of Prior Year Findings

Elements of a Finding

(Auditor develops with assistance from client)

- Identify Federal Program and Specific Federal Award
  - CFDA number
  - Federal award number
  - Federal agency
  - Name of pass-through entity
  - Criteria – statutory / regulatory
  - Condition found
  - Question cost – how computed
  - Information to provide prospective
  - Cause / effect
  - Recommendation

Reporting – Auditee Responsibilities

- Schedule of Expenditures of Federal Awards

- Data Collection Form

- Status of Prior Findings

- Corrective Action Plan

- Filing Reporting Package with the Clearinghouse

Data Collection Form

- Electronic template

- Signature of accounting firm

- Date prepared

- DCF is available on-line at
  - http://harvester.census.gov/sac

Status of Prior Findings

- For prior findings meeting A-133 (not GAS) reporting criteria

- Identify whether finding is:
  - Corrected
  - Not corrected
  - No longer valid (if after 2 years there is no federal or pass-through follow up or management decision)
  - Must determine reasonableness of status and report material misrepresentation as current findings

Corrective Action Plan A-133 .315

(Client Document)

- Contact person responsible for corrective action

- Planned action

- Anticipated completion date

- Explanation if:
  - Disagree with the finding
  - Believes corrective action is not required

Top 10 Ways to be Ready for Your Audit

- Identify all sub-recipients

- Develop monitoring file
  - Site visits
  - Contracts
  - Cross-agency info
  - A-133 reports
  - Correspondence on issue resolution

Top 10 Ways to be Ready for Your Audit (continued)

- Time and Effort Reports:
  - Get your employees into the habit of completing after-the-fact, timely, credible documentation that represents a reasonable estimate of the time worked on each grant project

Top 10 Ways to be Ready for Your Audit (continued)

- Timely Accurate Financial and Performance Reports:
  - Late reports often indicate weaknesses in grant management systems
  - Late reports are 'red flags' that may invite scrutiny

Top 10 Ways to be Ready for Your Audit (continued)

- Cost Transfers:
    - Shifts of costs between programs look suspicious
    - Those occurring close to the end of a project are particularly suspect

Top 10 Ways to be Ready for Your Audit (continued)

- Applicable Credits:
  - Don't forget to subtract credits from your grant charges before submitting to the awarding agencies
    - Purchase discounts
    - Rebates & refunds
    - Contract settlements

Top 10 Ways to be Ready for Your Audit (continued)

- Cash Management:
  - Minimize the time elapsing between drawing down federal cash under your letter of credit and disbursing it by check
  - Credit any interest earned back to the federal government

Top 10 Ways to be Ready for Your Audit (continued)

- Property Records:
    - Make sure your property records include all of the required data elements outlined in Circulars A-102 and A-110

Top 10 Ways to be Ready for Your Audit (continued)

- Equipment Inventory:
    - Take inventory of all equipment that has been acquired with Federal funds (at least once every two years)
    - Reconcile the inventory count to your property records

Top 10 Ways to be Ready for Your Audit (continued)

- Non-competitive Procurement:
  - If you award any contracts for goods or services on a sole source basis, prepare a written justification as to why you proceeded with the transaction
    - Ex: emergency, no responses to solicitation, etc.

Top 10 Ways to be Ready for Your Audit (continued)

- Over-valuation of Third Party In-kind Contributions:
  - Carefully and reasonably estimate the fair market value of services, supplies, equipment, and facilities that you receive from third parties and employ in a grant as part of your matching or cost sharing