



# GFOAz 2023 Summer Conference

## *Tips for a successful single audit and compliance audit trends*

Arizona Auditor General Presentation

August 10, 2023

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# What to expect and how to prepare for a single audit



Single audit requirements



Audit process



Audit trends and findings—2022 audits



Tips for a successful audit

# What to expect and how to prepare for a single audit



## Single audit requirement

A nonfederal entity that expends  $\geq \$750,000$  in federal awards during its fiscal year must have an annual single audit that is submitted to the Federal Audit Clearinghouse no later than 9 months after fiscal year-end

## Uniform Guidance

(2 CFR, Part 200, Subpart F)

# What to expect and how to prepare for a single audit



## Single audit

- **Purpose** = to provide high level of assurance that entity complied with federal program requirements
- Conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*

# Single audit reporting package



## Audited financial statements

- Auditors' opinions on whether the financial statements are reliable
- Auditors' report on internal control and on compliance
- Auditors' report on federal awards schedule



Caption: Pima County, Arizona. (2022.) *Annual Comprehensive Financial Report for the year ended June 30, 2022.* Tucson, Arizona.

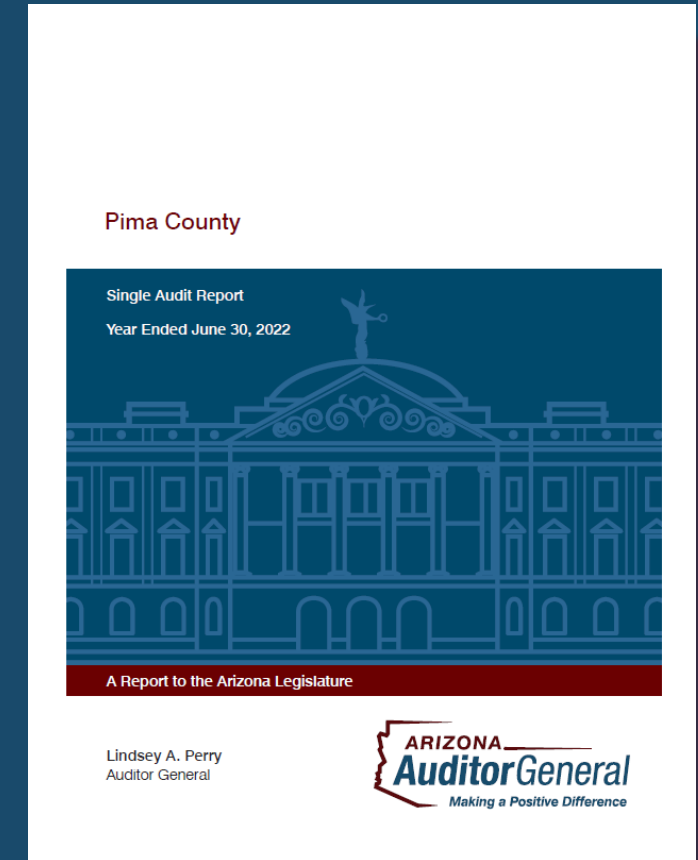


# Single audit reporting package



## Single audit report

- Auditors' opinions on compliance with major federal programs
- Auditors' summary of audit results, including findings and questioned costs
- Corrective action plan and summary of prior audit findings



# What to expect and how to prepare for a single audit



Auditor responsibilities outlined in Uniform Guidance

(2 CFR, §§200.514-.520)

## Auditor responsibilities

- Reports on
  - Compliance with federal program requirements = opinion
  - Internal control over federal program compliance (no opinion)
- Exercises professional judgment and skepticism throughout audit
- Fulfills independence and other ethical requirements
- Communicates certain aspects of audit to governing body

# What to expect and how to prepare for a single audit



## Reporting findings and questioned costs

(2 CFR, §200.516)

## Auditors required to report as findings

- Internal control weaknesses
- Noncompliance
  - Material noncompliance
  - Questioned costs  $\geq$  \$25,000 related to a compliance requirement



# What to expect and how to prepare for a single audit



## Questioned costs

(2 CFR, §200.1 -  
Definitions)

## Questioned costs

- Result from a violation of federal laws, regulations, or award terms
- Can include entity monies used to match federal awards
- Are not supported (lack documentation)
- Appear unreasonable and do not reflect actions of a prudent person in the circumstances

# What to expect and how to prepare for a single audit



## Reporting findings and questioned costs

(2 CFR, §200.516 & *Government Auditing Standards*, ¶6.20)

### Auditors required to report as findings

- Fraud affecting a federal award if detected (known or suspected)
- Instances where entity's reported status of prior findings is misrepresented based on results of audit follow up

Waste or abuse affecting a federal award can be reported if detected

# What to expect and how to prepare for a single audit



## Audit entity's responsibilities

Audit entity's responsibilities outlined in Uniform Guidance

(2 CFR, §§200.508-.512)

- Comply with the Uniform Guidance and federal award requirements
- Prepare the following
  - Financial statements
  - Federal awards schedule (or SEFA)
  - Response to findings/corrective action plan
  - Summary of prior audit findings

# What to expect and how to prepare for a single audit



## Summary schedule of prior audit findings

- **Corrected**—List finding and state that corrective action was taken
- **Partially corrected**—Indicate partial corrective action taken and remaining planned corrective action
- **Not corrected** – Include all prior findings not corrected unless no further action is warranted (federal or pass-through agency no longer following up on finding)

Finding	Status		
	Corrected	Partially corrected	Not corrected
202X-101	✓		
202X-102		✓	
202X-103			✓

# What to expect and how to prepare for a single audit



## Summary schedule of prior audit findings

### If prior audit finding not corrected

- List most recent prior-year number and year it initially occurred (no need to list all prior years' numbers)
- Include reasons for recurrence and planned corrective action
- If action taken differed from prior year's corrective action plan, explain why
- If no further action warranted, explain



# What to expect and how to prepare for a single audit



## Data collection form (form SF-SAC)

(Appendix X to Part 200 and on FAC website)

### Data collection form

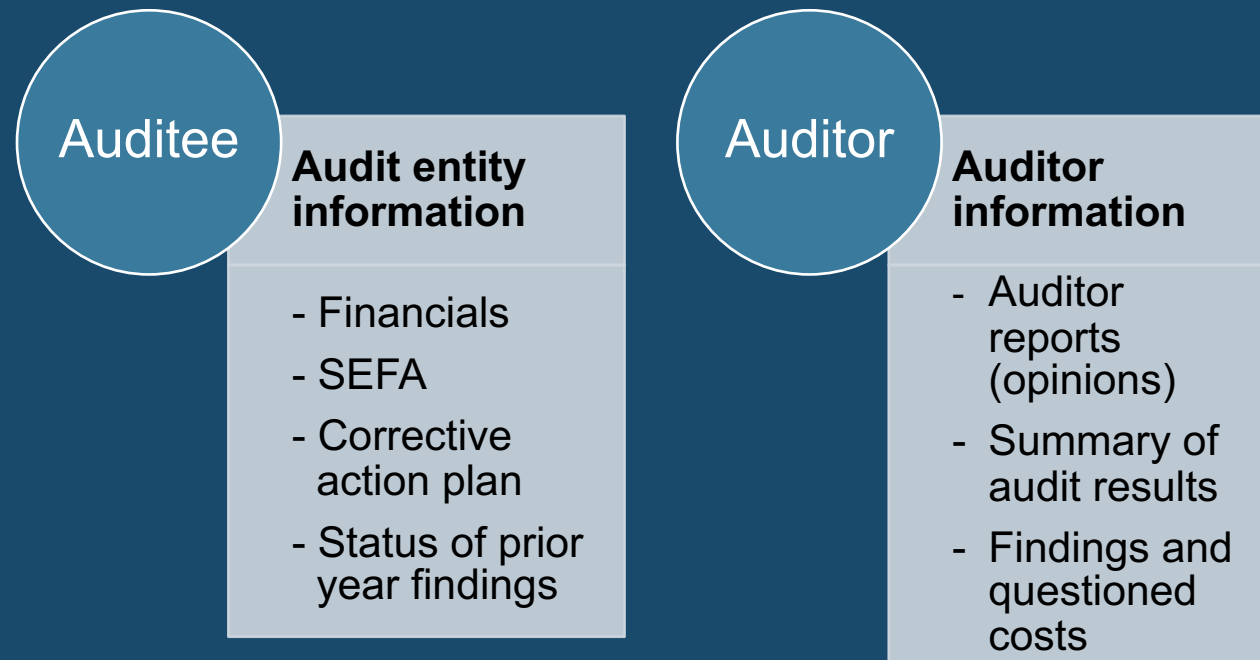
- Submitted with single audit reporting package to Federal Audit Clearinghouse
- Used to collect and report all required data elements in a form for federal agencies to use
- Contains portions prepared by auditor and audit entity

# What to expect and how to prepare for a single audit



## Data collection form

Reports single audit information in a format for  
Federal Audit Clearinghouse



# Single audit submissions to FAC



## Federal audit clearinghouse (FAC)



- FAC is hosted by the U.S. Census Bureau through September 30, 2023

FAC.gov

### **The FAC transition**

- Effective October 1, 2023, FAC is hosted by the U.S. General Services Administration (FAC.gov)

# Audit process



## Audits performed concurrently

Financial  
statement  
audit

Provides **reasonable assurance** that the entity's financial statements are free from material misstatement

Federal  
compliance  
audit

Provides **reasonable assurance** that the entity materially complied with federal award requirements

Single  
audit  
reporting  
package

# Audit process



Audits are risk-based and entity-wide focused

- Planning
- Preliminary work
- Final work



# Audit process



## Planning

- Reconcile expenditures reported on federal award schedule
- Determine major federal programs to audit
  - Federal programs' risk and \$\$\$ expended
  - Entity's risk (low-risk auditee needs less audit coverage)
- Assess each major federal program's risk

# Audit process



## Preliminary work

- Determine major federal programs and audit approach
- Understand policies and procedures
- Assess risk of noncompliance for each program selected for audit

Some federal planning and test work is done during preliminary stages of financial statement audit

# Audit process



## Federal compliance test work

### Final work

- Test internal controls and compliance
  - Payroll & nonpayroll expenditures—allowable activities/costs
  - Eligibility
  - Procurement and suspension and debarment
  - Reporting
  - Subrecipient monitoring, etc.

# Testing internal controls



Auditors are required to evaluate and test **internal controls** over compliance

(2 CFR §200.302, .514c, & .515b)

## Audit entity must

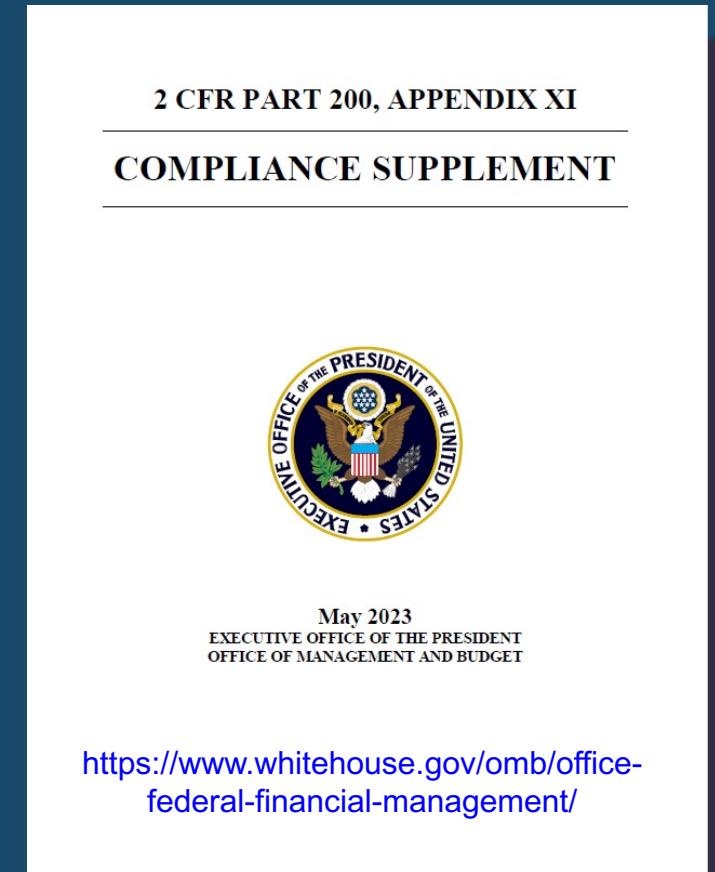
- Establish and maintain effective internal control to provide reasonable assurance it complies with federal program requirements
- Monitor its internal controls and compliance

# Testing compliance



## Auditors use Compliance Supplement

- Program guidance, audit objectives, and suggested audit procedures
- Compliance requirements subject to audit





# Testing compliance



Most federal programs have 6 to 7 compliance requirements subject to audit

Compliance Supplement—12 compliance requirements					
A	B	C	E	F	G
Activities allowed or unallowed	Allowable costs/ Cost principles	Cash management	Eligibility	Equipment and real property management	Matching/ Level of effort/ Earmarking
H	I	J	L	M	N
Period of performance	Procurement and suspension and debarment	Program income	Reporting	Subrecipient monitoring	Special tests and provisions

# Audit process



## Schedule of expenditures of federal awards (SEFA)

### Final work (continued)

- Test SEFA
  - Understand internal controls over preparation
  - Verify accuracy of information
    - Reconcile SEFA to financial statements
    - Perform analysis, sampling, or other tests
  - Opine if it is fairly stated in all material respects in relation to financial statements

# Audit process



## Final work (continued)

- Obtain corrective action plan for current year findings
- Ensure consistency with finding and recommendations
- Review and determine if deficiencies were adequately addressed
- Discuss any concerns with auditee
- Do not provide any assurance

## Corrective action plan

# Audit process



## Summary schedule or prior audit findings

### Final work (continued)

- Obtain summary schedule of prior audit findings and perform limited procedures
  - Status of prior year audit findings
  - Reason for finding recurrence
  - Partial action taken = consistent with follow up
  - Remaining planned action
- Do not provide any assurance

# Audit process



## Final audit wrap-up

### Final work (continued)

- Ensure SEFA and data collection form agree
- Draft audit reports
- General representation letter
- Auditors' communications to management and governance



# Questions?





# Audit trends and findings—2022 audits



Audit trends and findings identified involving certain federal compliance areas

- Subrecipient monitoring
- Reporting (includes reports used to request federal reimbursement)
- Period of performance

# Audit trends and findings—2022 audits



## Subrecipient monitoring

# Subrecipient monitoring



## Common areas for weaknesses

### No (or insufficient) monitoring performed

- Subrecipient / contractor determination not performed and documented
- No risk assessment done = needed to plan the monitoring procedures to be performed according to risk
- No written policies and procedures to follow

# Subrecipient monitoring



## Significant requirements

Uniform Guidance (2 CFR)	
§200.329	Monitoring and reporting program performance
§200.331	Subrecipient and contractor determinations
§200.332	Requirements for pass-through entities
§200.214 and §180	Suspension and debarment

# Subrecipient monitoring



## Subrecipient v. contractor?

Determinations involve considerations (case-by-case basis for each subaward)

- Carries out federal award or merely provides goods/services?
- Responsible for federal program compliance requirements?
  - Determines who is eligible to receive benefits?
  - Makes programmatic decisions?
  - Has the information to report results?

# Subrecipient monitoring



## Requirements

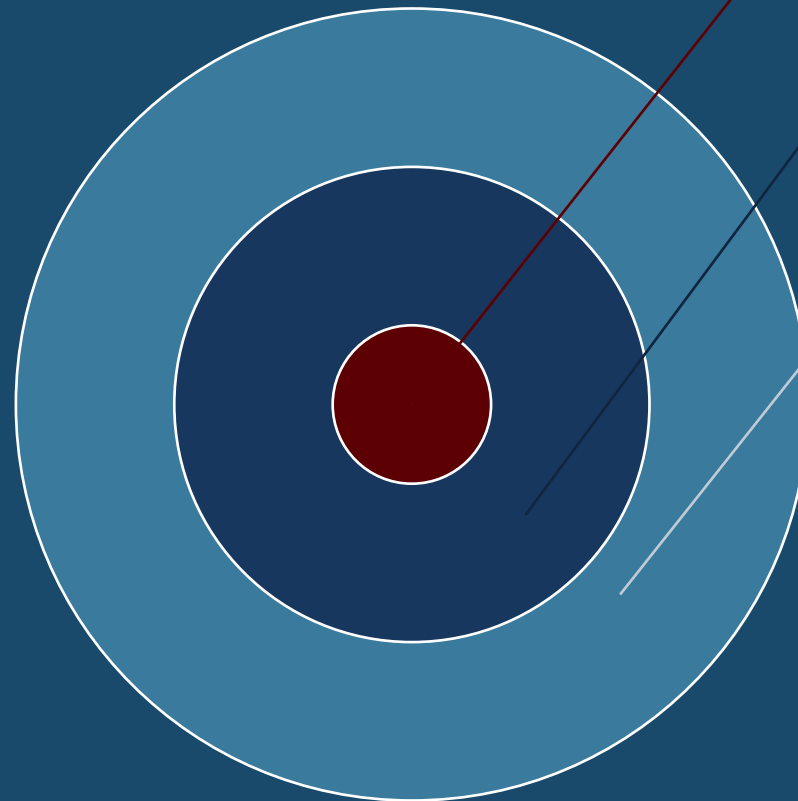
- Identify in subawards federal program information and all applicable federal compliance requirements
- Assess each subrecipient's risk for noncompliance
- Perform monitoring procedures commensurate with assessed risk



# Subrecipient monitoring



## Monitoring procedures



**Required for all!** Verify single audit, review reports, follow up on findings and issue management decisions

Perform further monitoring procedures depending on subrecipient's assess risk

May do further monitoring based on risk:

- Training and technical assistance
- Review invoices
- Site visits
- Compliance tests (sampling and examination of program records or agreed-upon procedures)

# Subrecipient monitoring



## Suggested audit procedures

a.

**Review policies and procedures** for subrecipient monitoring (i.e., identifying subawards, evaluating risk of noncompliance, performing monitoring)

b.

**Review subaward documents** to verify terms and conditions, identify compliance requirements for subrecipient or contractor to follow (2 CFR, 200.331a)

c.

**Review monitoring documentation and results** of monitoring performed and **ascertain** if entity verified subrecipients subject to single audit requirements were audited

# Subrecipient monitoring



## Audit recommendations

Establish policies and procedures to verify each subrecipient had a single audit (if required) and to...

Evaluate substance of federal subawards and identify compliance requirements

Assess subrecipients' risk of noncompliance and perform monitoring procedures accordingly

Document monitoring procedures performed, including compliance actions taken

# Audit trends and findings—2022 audits



## Reporting

# Reporting



## Common areas for weaknesses

### Reports contain errors or are not supported

- No independent review and approval prior to submitting to grantor
- No reconciliation to accounting records performed
- No formal schedule to track reports that are due
- No written policies and procedures to follow

# Reporting



## Significant requirements

Uniform Guidance (2 CFR)	
§200.302	Financial management
§200.308	Revisions of budget and program plans
§200.328	Financial reporting
§200.329	Monitoring and reporting program performance
§200.334	Retention requirements for records



# Reporting



## Requirements

Maintain separate accounting records for each federal program's award activities to report on and demonstrate compliance with federal requirements

# Reporting



## Requirements

- Prepare and submit timely financial & performance reports required by award terms and conditions
- Retain records for 3 years from final report submission date (includes subrecipients)

# Reporting



## Suggested audit procedures

a.

**Sample** financial reports to determine if they agree to underlying accounting records and amounts reported on SEFA for federal program

b.

**Verify** reports were prepared appropriately (e.g., period covered and accounting basis) and submitted timely, and any discrepancies were documented, resolved, and supported

c.

Selection of reports tested by auditors **includes** reports used to **request federal reimbursement**

# Reporting



## Audit recommendations

Establish policies and procedures for submitting accurate reports in a timely manner that require...

Preparing and retaining documentation supporting report's information and how it was obtained

An independent review and approval of all reports and reimbursement requests before submission

Reconciling report information to accounting records and other supporting documentation

# Audit trends and findings—2022 audits



Period of  
performance

# Period of performance



## Common areas for weaknesses

Costs incurred prior to award's start date charged to program without preapproval by federal agency

- No review of award performance period dates to ensure all costs incurred were within allowable period
- No written policies and procedures to follow



# Period of performance



## Significant requirements

Uniform Guidance (2 CFR)	
§200.1	Definitions—Period of performance
§200.308	Revision of budget and program plans
§200.309	Modifications to period of performance
§200.344b	Closeout
§200.403h	Factors affecting allowability of costs

# Period of performance



## Definition

**Performance period** (stated on federal award document) indicates the federal award's start and end dates and may include multiple funding streams or budget periods

# Period of performance



## Requirements

- To be allowable, costs must be incurred during the award's performance period
- Costs incurred outside the award's performance period must be preapproved by the federal agency prior to charging them to federal program

# Period of performance



## Suggested audit procedures

a.

**Review award documents** to determine period of performance and **test** transactions for costs incurred **prior to award's start date** (for start dates during audit period)

b.

**Test** transactions for costs incurred after award's ending date to see if any were charged to program (for ending dates during audit period)

c.

**Test adjustments** (manual journal entries) for costs to verify they are for costs incurred during award's performance period.

# Period of performance



## Audit recommendations

Establish policies and  
procedures to...

Request preapproval from federal agency for costs incurred outside of award performance period

Require reviewer to verify costs are within performance period and any necessary preapprovals obtained

If costs outside award performance period were charged, work with federal agency to resolve

# Tips for a successful audit



## Takeaways

- Be prepared!
- Communicate with your auditors
- Document key decisions
- Create, update, and follow internal policies and procedures
- Train appropriate staff regarding federal compliance requirements
- Submit audit documentation by agreed-upon dates





# Resources and links

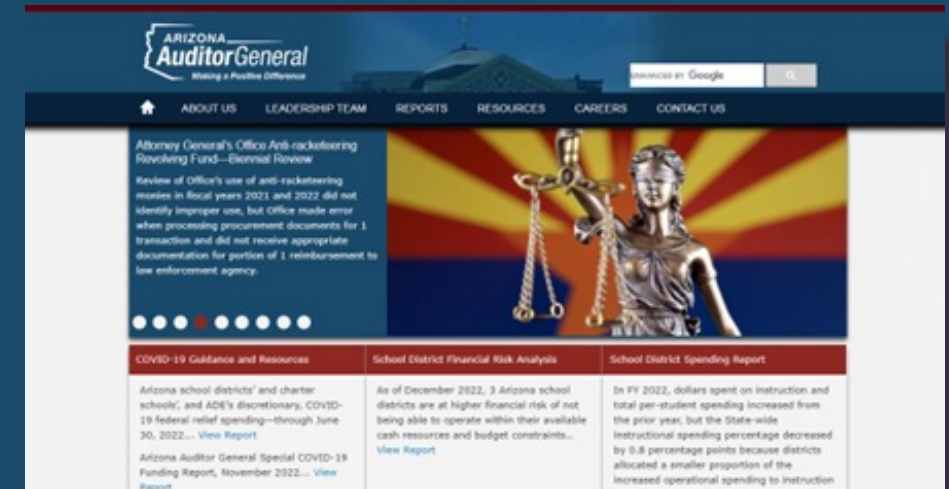


## Federal resources

- OMB Compliance Supplement  
<https://www.whitehouse.gov/omb/office-federal-financial-management/>
- Uniform Guidance (2 CFR)  
<https://www.ecfr.gov/current/title-2/subtitle-A>

## On our website

- Financial statement user guides
- Reporting guidelines
- Other guidance (e.g., leases)
- Forms (e.g., budgeting and expenditure limitation reports)



[www.azauditor.gov](http://www.azauditor.gov)

# Questions?

