THE GREAT GASB CONFERENCE
Single Audit Overview

Single Audit

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Agenda
- Brief History
- Major Program Determination
- Materiality
- 14 Compliance Requirements
- Internal Control vs. Compliance Testing
- Facilitating a Successful Audit

Brief History
- Single Audit Act 1984
- Authority: OMB Circular A-133
- States, local governments & non-profits
  - Uniformity
  - Consistency

http://whitehouse.gov/omb/circulars-default/

A-133
- Federal Awards
  - CFDA Number
  - Directly or indirectly from federal government
  - Can be:
    - Typical program expenses
    - Loan & loan guarantees
    - Endowment funds which are federally restricted
    - Free rent received to carry-out an award
Federal Programs

› Federal awards assigned a single number in the Catalog of Federal Domestic Assistance
› A cluster of programs – a grouping of closely related programs that share common compliance requirements
› If no CFDA number is assigned – all federal awards from the same agency with similar purposes should be considered one program

Catalog of Federal Domestic Assistance (CFDA) Numbers

› First two digits – federal agency
› Second set of digits – program

EXAMPLE – 84.XXX
- US DOE
EXAMPLE – 84.027
- Special Education – Grants to States

http://www.cfda.gov

Who has to get an Audit?

› Non-federal entity that EXPENDS $500,000 or more in the entity’s fiscal year must have a Single Audit
› Single Audit includes:
   - financial statement,
   - yellow book, and
   - A-133 reporting
Federal Agencies & Pass-through Entities

- Federal Agency – Cognizant, oversight and awarding agencies
- Pass-through entity – non-federal entity that provides a federal award to a subrecipient to carry out a federal program

Determining Federal Expenditures

- Expense transactions
- Cost reimbursements
- Direct appropriations
- Funds passed-through
- Use of loan proceeds under loan guarantee programs
- Receipt of property
- Receipt or use of program income
- Receipt or distribution of food commodities

A-133: Subrecipient vs. Vendor

- Subrecipient
  - Determines who is eligible
  - Performs objectives of program
  - Responsible for programmatic decisions
  - Uses funding to carry-out program

- Vendor
  - Receives payment for goods and services
Schedule of Federal Awards (SEFA)
- List individual programs by Federal agency
- Show pass-through agency for all amounts expended as subrecipient awards
- Provide total Federal awards expended for each program
- Include notes that describe significant accounting policies used to prepare the schedule
- Provide amount of award provided to subrecipients
- Include amount of non-cash assistance expended

Major Program Determination

Major Program Determination (High vs. Low Risk)
- Risk Based Approach:
  - Current & prior year audit experience
  - Oversight by federal/pass-through agencies
  - Inherent Risk of the program
Step 1: Determine Type A vs. Type B Programs
Type A – Programmatic expenditures that exceed the larger of:
  - $300,000 or 3% but are less than or equal to $100 million
  - $3 million or .003 but are less than or equal to $10 billion
  - $30 million or .0015 for all auditees with expenditures greater than $10 billion

Type B – All other programs

Step 2: Identify Low Risk Type A Programs
  - Audited as major program within last 2 audit periods
  - No findings in last audit period
  - Not federally identified as a high risk

Step 3: Identify High Risk Type B Programs
  - Identification only required for Type B programs exceeding:
    - $100,000 or .003 of total federal expenditures for auditees expending less than or equal to $100 million
    - $300,000 or .0003 of total expenditures for auditees expending more than $100 million
Step 4: Determine Programs to Audit

- All high risk Type A programs
- High risk Type B programs:
  - Option 1 – ½ of programs but no greater # than the # of low risk Type A programs
  - Option 2 – 1 high risk Type B for each low risk Type A
- Other programs – as needed to comply with the percentage of coverage rule

Percentage Coverage Rule

- High Risk Auditee – 50%
- Low Risk Auditee – 25%

Percentage of Coverage

- Federal programs with aggregate federal awards expended of at least 50% of total federal awards expended must be classified as major programs. Can be reduced to 25% if entity qualifies as “low risk auditee.”

- Low risk auditee – single audits on annual basis, unqualified opinions, no material weaknesses, no findings for each of the previous two years
Understanding the Program

Identify requirements specific to each program as well as general requirements for federal programs

Ways to get started:
- http://www.cfda.gov (search database)
- Grant Award (and attachments)
- Compliance Supplement & related Matrix of Compliance Requirements

Review of Compliance Supplement

- Source of program objectives, procedures, and compliance requirements
- Defines audit objectives and procedures
- 7 Parts – Background, Matrix, Requirements, Program Requirements, Clusters, Internal Control, and Guidance for programs outside the supplement

Matrix of Compliance Requirements

- List by Federal Department, then by CFDA#
- Outlines applicability of 14 requirements

Note: "N/A" does not necessarily mean the program does not involve that particular requirement. Similarly, a requirement that is noted as applicable may not be applicable at the particular entity due to materiality or other issues.

http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2011
In financial statement audits, materiality involves an assessment of the auditor’s judgment.

In single audits, materiality is generally a 5% calculation of the program (or cluster) federal expenditures.
A – N
The objectives of most compliance requirements are generic in nature.

A. ACTIVITIES ALLOWED OR UNALLOWED

The requirements are contained in program legislation or, as applicable, ARRA, Federal awarding agency regulations, and the terms and conditions of the award.

B. ALLOWABLE COSTS/COST PRINCIPLES

- Direct Costs (Payroll & Non-payroll)
- Indirect Costs
  - Auditors must test the actual indirect charges as well as the method of charging the indirect cost.
C. CASH MANAGEMENT

- Advances
- Reimbursement Requests

- Treasury–State Agreement – all programs not covered must individually meet Cash Management requirements

D. DAVIS–BACON ACT

- Federal expenditures for construction generally should be paid at prevailing wage

E. Eligibility

- Individuals
- Groups of Individuals or Service Delivery Areas
- Subrecipients
F. Equipment & Real Property Management

- Real Property reversionary provisions
- Inventories & tagging
- Equipment disposition instructions

G. Matching, Level of Effort, Earmarking

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

H. Period of Availability of Federal Funds

Time period during which the non-Federal entity may use the Federal funds.

- Charge only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.
- If authorized, unobligated balances may be carried over and charged for obligations of a subsequent funding period.
H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

- Obligations – the amounts of
  - orders placed,
  - contracts and subgrants awarded,
  - goods and services received, and
  - similar transactions
during a given period that will require payment by the
non-Federal entity during the same or a future period.

- Liquidate all obligations incurred under the award not
  later than 90 days after the end of the funding period
  (or as specified in a program regulation).

I. PROCUREMENT AND SUSPENSION AND DEBARMENT

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

Covered transactions – procurement
contracts for goods and services awarded
under a grant or cooperative agreement that
are expected to equal or exceed $25,000 or
meet certain other specified criteria.

J. PROGRAM INCOME

Program income is gross income received
that is directly generated by the federally
funded project during the grant period.
K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE
The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by federally-assisted programs from their homes, businesses, or farms.

L. REPORTING
- Financial
- Performance
- Special

M. SUBRECIPIENT MONITORING
A pass-through entity is responsible for:
- Determining Subrecipient Eligibility
- Central Contractor Registration (CCR)
- Award Identification
- During-the-Award Monitoring
- Subrecipient Audits
M. SUBRECIPIENT MONITORING

- During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through
  - reporting,
  - site visits,
  - regular contact,
  - or other means

M. SUBRECIPIENT MONITORING

- Subrecipient Audits –
  1. Ensuring that subrecipients expending $500,000 in Federal Awards
  2. Issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and
  3. Ensuring that the subrecipient takes timely and appropriate corrective action

N. SPECIAL TESTS AND PROVISIONS

The specific requirements are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
Internal Control & Compliance Testing

Tests whether KEY controls are operating as designed.

Tests are prescribed by the compliance supplement requirements for each program.

Sample Sizes

Sample sizes are based on

- Control Risk Assessments
Control Testing Sample Sizes

**Significance of Control and Inherent Risk of Compliance Requirement**

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>Minimum Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very significant &amp; higher inherent risk</td>
<td>60</td>
</tr>
<tr>
<td>Very significant and limited inherent risk or</td>
<td></td>
</tr>
<tr>
<td>Moderately significant and higher inherent risk</td>
<td>40</td>
</tr>
<tr>
<td>Moderately significant and limited inherent risk</td>
<td>25</td>
</tr>
</tbody>
</table>

Compliance Testing Sample Sizes

**Designed Level of Assurance**

<table>
<thead>
<tr>
<th>Designed Level of Assurance</th>
<th>Minimum Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>60</td>
</tr>
<tr>
<td>Moderate</td>
<td>40</td>
</tr>
<tr>
<td>Low</td>
<td>25</td>
</tr>
</tbody>
</table>

- This sample size table is appropriate for sampling from populations of 250 items or greater.

Small Population Sample Size (<250 items)

**Frequency & Population**

<table>
<thead>
<tr>
<th>Frequency &amp; Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly (4)</td>
<td>2</td>
</tr>
<tr>
<td>Monthly (12)</td>
<td>2—4</td>
</tr>
<tr>
<td>Semimonthly (24)</td>
<td>3—8</td>
</tr>
<tr>
<td>Weekly (52)</td>
<td>5—9</td>
</tr>
</tbody>
</table>

- For populations between 52 and 250 items, a rule of thumb some auditors follow is to test a sample size of approximately 10 percent of the population.
Preparation

Boards should:
- Request technical assistance throughout the year as needed
- Send “final” SEFA prior to field work
- Prepare electronic copies of all current grant agreements
- Have federal program personnel perform a self review prior to field work

Preparation

- Prepare supporting schedules for all significant elements (A–N)
- Provide electronic copies of all supporting schedules
Auditors should
- Distribute client assistance packages to all assigned personnel.
- Communicate fieldwork dates and deadlines to all assigned personnel
During Audit Fieldwork

- Accommodations (telephone, internet access, secured room, etc.)
- Allow for extended work hours
- Coordinate field work dates during down time
- Reserve time for pulling samples, answering questions

Close of Audit

- Review all proposed findings and/or management comments
- Prepare management responses to final findings and/or management comments
- Facilitate an exit conference

Questions?