

**Engaging in Best Financial
Management Practices:
Understanding Single Audits**

Levels of CPA Services

- Compilation of Financial Statements
- Review of Financial Statements
- Audit of Financial Statements
- Single Audit

Levels of CPA Services

A **compilation** refers to financial statements that were prepared or compiled by an organization's outside accountant. With **compilations**, or **compiled financial statements**, the outside accountant converts the data provided by the client into financial statements without providing any assurances or auditing services.

The accountant offers *no opinion* on the financial statements.

Levels of CPA Services

A financial statement **review** is a service under which the accountant obtains limited assurance that there are no material modifications that need to be made to an organization's financial statements for them to be in conformity with generally accepted accounting principles.

Procedures for conducting a **review** of financial statements are generally limited to analytical procedures and inquiry of management, as well as obtaining managements representation of the completeness of the information provided.

Levels of CPA Services

An **audit** of an organization's financial statements provides an opinion by an independent expert that the financial statements present fairly the financial position and results of the operations of the organization. The CPA will gather sufficient and reliable evidence regarding the information provided in the financial statements.

The **audit** evidence usually includes understanding the internal controls of the organization, confirmation of balances with third parties, testing of detailed transactions to support documentation, interviews with personnel and board members on processes, ethics and fraud and obtaining management representations of the completeness of the information provided.

What is a Single Audit?

- A Single Audit is an audit of both financial and compliance requirements for an organization
- The purpose of an audit is to see that an organization has completed the activities they said they would do in their grant budget
- A Single Audit is due 9 months after the end of the fiscal year
- Updated guidance for audits now included in 2 CFR 200 Subpart F

What is a Single Audit?

- Any grantee spending more than \$750,000 in Federal awards is required to have a single audit done annually to measure the grantee's compliance with grant requirements
- Federal grant agency may require an audit even if the total federal funds expended are less than \$750,000
- Grant agencies may also request that a program be audited as a major program, even if it would not normally be considered major. In this case, the federal agency will notify the recipient and provide funds to pay the costs (2CFR 200.503)
- Audit must be conducted in accordance with 2 CFR 200.514
- Audit planning should start before your fiscal year ends so that an auditor has time to schedule and complete the work

Auditee Responsibilities under 2 CFR 200.508

- Procure the audit in accordance with 2 CFR 200.509
- Ensure the audit is properly performed and submitted (2 CFR 200.512)
- Prepare financial statements including the Schedule of Expenditures of Federal Awards (2 CFR 200.510)
- Prepare a schedule of the actions taken for prior audit findings (2 CFR 200.511)
- Provide the auditor with access to all personnel, accounts, books, records, supporting documentation, and any other documentation requested.

Auditor Selection 2 CFR 200.509

- Auditee must follow their own procurement policy and the requirements in 2 CFR 200, Subpart D
- Auditee must require the auditor to provide a copy of the audit firm's most recent peer review.
- Factors in evaluating proposals should include relevant experience, technical abilities, and staff experience, as well as price
 - Have they worked with Tribal governments, grant awards, etc?
 - Do they have the staff and time to complete the audit in a timely manner?
 - Did you check references?
- An auditor who prepares the indirect cost proposal or performs other contract work for the auditee should be evaluated for independence before an audit contract is executed

Financial Statements 2 CFR 200.510

- Auditee is responsible for preparing the financial statements that reflect financial position, results of operations or changes in net assets, and cash flows as required. The financial statements must be for the same fiscal year as the audit
- Auditee will prepare the schedule of expenditures of federal awards, which must include the total federal awards expended during the audit period. At a minimum, the schedule will include:
 - List of federal programs by agency
 - The grant awards spent for each program and the appropriate Catalog of Federal Domestic Assistance number (CFDA)
 - If federal awards are received as a Subrecipient, the name of the passthrough entity
 - Total amount of grant funds provided to subrecipients
 - Notes that describe the significant accounting policies used and whether the 10% de minimis cost was used (2 CFR 200.414)

Audit Findings Follow Up (2 CFR 200.511)

- The auditee is responsible for all follow up and corrective action for all findings
- The auditee must prepare a schedule of prior audit findings and the status of the corrective actions
- The auditee must prepare a Corrective Action Plan for all audit findings – current year and any outstanding findings from prior years
 - The corrective action plan will include the following:
 - Name of the contact person in charge of the corrective action
 - Corrective action planned
 - Date the corrective action should be completed
- Any financial statement findings must be included in the corrective actions
- If prior audit findings have been fully corrected, the summary schedule only needs to list the finding and action taken

Audit Findings Follow Up (2 CFR 200.511)

- If the finding was not completely corrected, the summary schedule must describe the reasons it was not corrected, what corrective action will be taken now, and what corrective action has been taken
- If the corrective action taken is significantly different from the planned corrective action submitted, an explanation will be included in the schedule
- If the auditee believes the findings are no longer valid or no longer require action, the reasons must be included in the summary schedule
- Reasons for the above include:
 - Two years have passed since the audit report where the finding occurred was submitted to the FAC AND
 - The Federal agency is not currently following up with the auditee on the finding AND
 - A management decision was not issued
- **If the auditee does not agree with a finding, then specific reasons must be included**

Report Submission 2 CFR 200.512

- The audit report is due to the Federal Audit Clearinghouse within 9 months of the end of the audit period, or within 30 days after receipt of the audit report, whichever is earlier.
- Auditee must make copies of the audit package available for public inspection.
- Auditee and auditor are responsible for ensuring that the reporting package does not include protected personally identifiable information (2 CFR 200.82)
- The reporting package includes a Data Collection form which will be authorized by both the auditor and auditee
- **EXCEPTION** – Tribes may opt out of the Federal Audit Clearinghouse publication of their audit. If this is done, the Tribe must submit the reporting package to all federal agencies providing grant funds and must still make the reporting package available for public inspection.

Report Submission 2 CFR 200.512

- Audit Reporting Package includes:
 - Financial statements and schedule of expenditures of federal awards
 - Summary schedule of prior audit findings
 - Auditor's reports
 - Corrective action plan

Required Auditor's Reports (2CFR 200.515)

- Required Auditor's reports include:
 - An opinion or disclaimer of opinion as to whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and an opinion or disclaimer of opinion as to whether the schedule of federal awards is fairly presented in all material respects in relation to the financial statements taken as a whole
 - A report on internal control over financial reporting and compliance with federal statutes, regulations, and terms and conditions of federal awards.
 - A report on compliance for each major program and report and internal control over compliance
 - A schedule of findings and questioned costs which must include
 - A summary of auditor's results
 - Findings related to the financial statements which are required to be reported in accordance with GAGAS
 - Findings and questioned costs for federal awards

List of Possible Compliance Requirements for Grants

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. No longer applicable
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking

List of Possible Compliance Requirements for Grants

- H. Period of Performance
- I. Procurement/Suspension/Debarment
- J. Program Income
- K. No longer applicable
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

Compliance Resources

- Check the compliance manual at www.whitehouse.gov
- Failure to comply with requirements may result in audit findings or monitoring findings!

Activities Allowed or Unallowed

- Definition - This compliance requirement establishes that each program operates for a specific purpose, and that funds provided for the program must only be used in activities that benefit that purpose. Therefore, Federal assistance provided to a recipient for a specific purpose must be expended for such purpose only.
- Example – Accounting services to prepare the Coalition’s tax returns are allowable. Accounting services to prepare an employee’s taxes are not allowable.

Activities Allowed or Unallowed

- All grant funds **MUST** be spent on allowable activities as defined above and in the special conditions document
- All expenditures **MUST** support the goals and objectives as defined in the special conditions document

Allowable Costs/Cost Principles

- All OMB Cost Circulars are now combined into 2 CFR 200
- 2 CFR 200 covers Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- 2 CFR 200 applies to all grant awards

Allowable Costs/Cost Principles

Factors affecting allowability of costs:

- Costs must be necessary and reasonable for the performance of the Federal award and be allocable to the Federal award
- Costs must conform to any limitation or exclusions set forth in these principles OR in the Federal award as to types or amount of cost items

Allowable Costs/Cost Principles

- Costs must be consistent with the organization's policies and procedures that apply uniformly to both federally funded and other activities of the entity
- Policies and procedures covering allowable costs should be in the financial policies and procedures for your organization
- Costs must be accorded consistent treatment.

Allowable Costs/Cost Principles

- A cost may not be treated as a direct cost if any other cost incurred for the same purpose has been allocated to the Federal award as an Indirect cost
- Costs must be determined in accordance with GAAP (Generally Accepted Accounting Principles) unless otherwise provided
- Costs may not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed period in either the current or prior periods, unless otherwise provided for in the grant award

Cash Management

- If the Federal award provides for advance payment, the grantee must follow procedures to minimize the time between receipt of grant funds and the disbursement of grant funds.
- The grantee must determine the amount needed (usually based upon the approved budget) and then request the appropriate funds.
- Funds should be spent within 5 days of receipt.

Cash Management

- If the grant is a cost reimbursement award, the grantee must spend the funds before requesting reimbursement.
- The grantee will prepare and submit reimbursement requests as the funds are spent.
- Grantee must keep supporting documentation to show that the costs were paid before the reimbursement request

Eligibility

- Applies to most Federal programs providing benefits to individuals or groups
- Review grant application and award for eligibility requirements to verify that all requirements are met

Equipment and Real Property Management

- Applies to equipment and real property purchased with Federal funds that has a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.
- Recipient must conduct an inventory of the equipment at least once every two years
- Recipient must have appropriate policies and procedures as well as a system of inventory and asset tracking to protect and track equipment

Matching, Level of Effort, Earmarking

- Matching – grantee must provide contributions of a specified amount or percentage to supplement the Federal award
- Level of Effort – particular goals or objectives the recipient must achieve with the Federal award provided
 - Example – recipient is required to spend 50% of their budget on equipment
- Earmarking – specifies a limit amount or percentage that must or may be used for specific activities
 - Example – a maximum of 20% of the grant may be spent on administration

Period of Availability of Federal Funds

- Grants are awarded for a specific time period. Use of grant funds outside the specified period is not allowed unless the grantor has authorized an extended period
- Grant time period will be noted on the award letter

Procurement and Suspension and Debarment

- Procurement requires all goods and services acquired from a supplier or vendor are obtained in an effective manner and in compliance with laws and regulations
- Procurement rules are included in 2 CFR 200.318 through 200.326
- Written policies and procedures for procurement are required and should be followed

Procurement and Suspension and Debarment

- Suspension and Debarment – no goods or services should be acquired from providers prohibited by the Federal government
- System for Award Management (SAM) is available at: www.sam.gov
- Recipient must verify that the vendor, supplier, provider, owner, or top management is not on the SAM

Program Income

- Any income directly generated by the Federally funded program must be spent in accordance with the Federal agency guidelines.
- Usually generated from fees for services performed and rental income
- Generally required to be spent on program services in accordance with the grant

Reporting

- Semi annual progress reports are required to explain the activities performed and how they help achieve the goals of the award
- Quarterly financial reports are required
- Review your grant application and award for due dates and required format for reports

Subrecipient Monitoring

- If you pass through any grant funds to a subrecipient, you are responsible for monitoring the activities of that subrecipient

Special Tests and Provisions

- Grantors can require additional compliance requirements other than those noted above.
- Always communicate with program officer! They are there to help.
- Always review your grant for any additional requirements!

Audit Preparation

CASH AND INVESTMENTS

Bank Reconciliations and Bank Statements

- Bank reconciliations and bank statements as of the last month of the fiscal year end and first month of the next period.
- Are reconciliations current?
- Do amounts on the reconciliations agree to your books?
- Did outstanding items clear in the following period?
- Are there large transfers or checks that will impact the financial statements?
- Are all checks accounted for and in sequence?
- Is the organization's name on bank accounts?
- Is the organization receiving the bank statements?

COPIES OF CHECK REGISTERS

- Payees appear valid?
- Amounts appear valid?
- Excessive amounts?
- Significant check amounts?
- Check selection for testing – Random or other method

COPIES OF INVESTMENT STATEMENTS

- Are the investments held in the organizations name?
- Sales or purchases during the fiscal year?
- Investments allowable under federal agency rules and organization's policies?
- Statement and interest balances agree to books?

COPIES OF ALL PLEDGED COLLATERAL

- Amounts pledged cover cash in bank balances
- Kind of collateral pledged (Federally insured)
- Who holds collateral?

RECEIVABLES ACCOUNTS RECEIVABLE AND AGING

- Do A/R totals agree to books?
- Are accounts listed collectable?
- Any related parties included?

PREPAID ACCOUNTS

DETAIL LIST OF PREPAID BALANCES

- Detail agrees to balance on the books?
- Are prior year amounts expensed in the current year?
- Does the statement balance agree with the current balance?

PROPERTY AND EQUIPMENT INVENTORY LISTING OF PROPERTY AND EQUIPMENT AS OF YEAR END

- Do totals on the property list agree to financial records?
- Was an inventory of property and equipment taken during the audit period?
- Does property listing include cost, depreciation, accumulated depreciation, book value and source of purchase?
- Assets sold or disposed during the audit period.
- Does the board approve all purchases and disposals?

ACCOUNTS PAYABLE AND ACCRUED EXPENSES DETAIL LIST OF PAYABLES AT YEAR END

- Does the detail of the A/P list agree to the books?
- Are amounts current, and if not, why?
- Are amounts cleared in the next period?
- Were any payments made to related parties?
- Should any amounts be considered long term payables?
- Additional terms, W-9's on file, 1099's issued as required?
- Vendor master file list reviewed for errors or irregularities.

DETAIL LIST OF ACCRUED EXPENSES AT YEAR END

- Detail list agree to books?
- Are amounts current, and if not, why?
- Amounts cleared in the next period?
- All employees withholdings documented?
- All employees withholdings paid in the next period?
- Leave balances reconciled at year end, and listed by employee?

DETAIL LIST OF LONG TERM PAYABLES AT YEAR END

- DETAIL LIST AGREE TO FINANCIALS?
- ANY NEW LONG TERM PAYABLES ADDED DURING AUDIT PERIOD?
- ANY LONG TERM PAYABLES PAID OFF DURING YEAR END?
- WHAT ARE TERMS AND CONDITIONS FOR LONG TERM PAYABLES?
- WHAT ARE AMOUNTS DUE AND PAYABLE IN THE NEXT YEAR?

EQUITY

DETAIL LIST OF ITEMS IN EQUITY SECTION

- Does the beginning balance agree to the ending balance from the prior year?
- Were there any prior period adjustments?
- If so, were they approved by board or appropriate management?
- Were all audit adjustments recorded?
- Simple formula:
 - Beginning equity
 - +/- Changes in fund balance
 - +/- Adjustments
 - = Ending equity

REVENUES AND EXPENDITURES COMPLETE LIST OF FINANCIAL STATEMENTS

- Copy of all grants active during the audit period
- Do the financial statements balance?
- Are the financial statements shown by line item or other level of detail?
- Do amounts on the financial statements agree to the amount on all reports submitted to the grantor? And were the reports submitted on time?

COPIES OF ALL 941 REPORTS SUBMITTED DURING THE AUDIT PERIOD

- Do the amounts on the 941 reports agree to the payroll amounts recorded in the financial records?
- Were the reports submitted on time?

LIST OF ANY INTERFUND TRANSFERS DURING THE AUDIT PERIOD

- Do the amounts shown as transfers out agree to the amount shown as transfers in?
- Were all transfers recorded in the correct fund?
- Are there any balances in transit at the end of the audit period?

OTHER ITEMS

COPY OF BOARD MINUTES

- Copy of all board meeting minutes during the audit period and into the following period.
- Are the minutes complete?
- Do the minutes include a list of board members for the audit period?
- Were there any changes to the board during the audit period?

OTHER ITEMS, CONTINUED

- Access to employee payroll records, including time cards.
- General ledger detail as requested.
- Copy of policies and procedures manual.
- Copy of employee handbook.
- Copy of job descriptions, as requested.
- Access to internal monitoring reports.

**OTHER ITEMS, CONT.
LIST OF ANY SIGNIFICANT EVENTS DURING
THE YEAR**

- Changes in any key employees
- Any fraud events during the year
- Changes in key vendors, including attorneys
- Any new grants awarded
- Property acquisition and sale/disposal
- Copy of any monitoring reports done by grantor
- Changes to grant awards, including adding or discontinuing programs

Questions?