

The Uniform Guidance and Single Audit Standards Update

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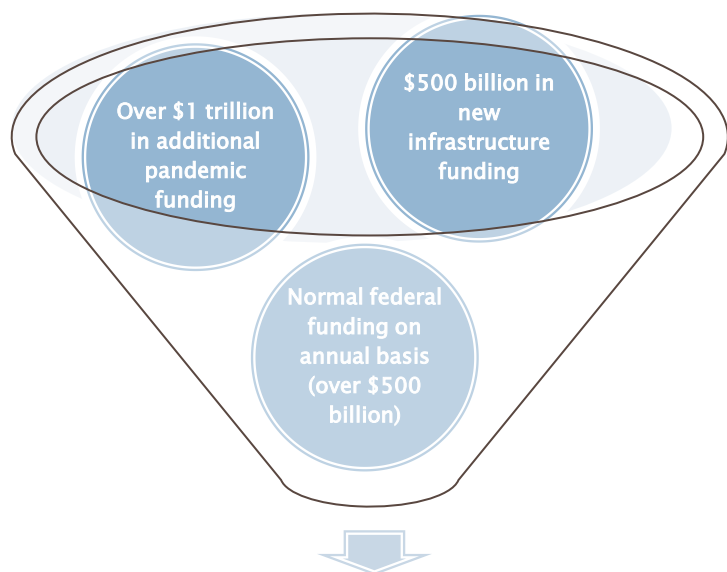


Objectives

- ▶ Single Audit Quality
 - A little bit about how much funding is causing problems beyond the norm
 - Discussion on what to consider, including an alternative to a single audit (?)
- ▶ Uniform Guidance
 - What are the big changes?
 - Considerations
- ▶ Other Considerations?
 - SAS 145 vs 148
 - AU-C 935

Single Audit Challenges

Significant Stress Continues in “Single Audit” System



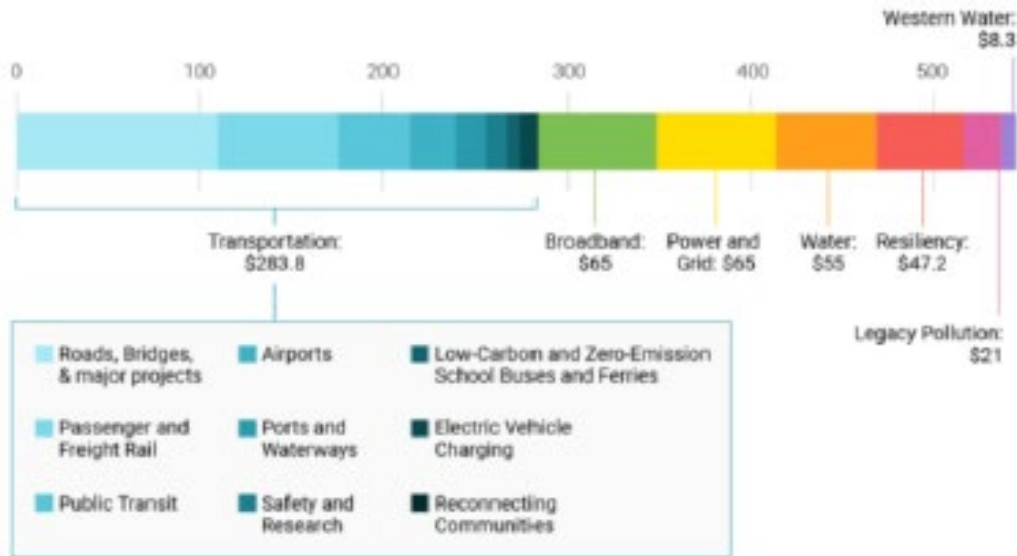
End Result: Significant Increases in Single Audits and Other Similar Compliance Audits

Year	# Single Audits*
2019	37,290
2020	39,796
2021	44,999
2022	45,280
2023	(To early) currently approx. 30K

*Above numbers do not include for-profit audits of federal funding (e.g., healthcare entities and shuttered venues) which likely would add another 10,000+ audits for 2021 and 2022

Most Recent – IIJA

Figure 1. Topline above-baseline spending in IIJA (billions of USD)



Source: Bipartisan Infrastructure Investment and Jobs Act Summary

B Metropolitan Policy Program
at BROOKINGS

Funds by Agency – \$Billions

• DOT	274
• EPA	75
• Energy	65
• Commerce	51
• Interior	32
• Army CE	17
• FCC	14
• USDA	8
• Homeland	8
• HHS	4
• GSA	3
• Independent	1
• Treasury	6
• EXOP	2
Total	551

Broadband Equity, Access, And Deployment Program: \$42.45 billion

All IIJA DOC programs in National Oceanic and Atmospheric Administration and National Telecommunications and Information Administration.



Single Audit Challenges

Supply vs Demand

- More single audits - same or less auditors

Major Program Determination

- Potentially more higher risk programs (compliance supplement designations)
- % of coverage – Entities not previously having single audit
- Timely submission

New Programs/New Requirements

Newbies

SEFA Challenges

Out-of-Period issues

- PRF – Reporting guidance
- ESF/HEERF and PRF ability to go back to fiscal 2020 and grab expenditures/lost revenue
- SVOG allowing pre-award costs back to March 2020

Determining completeness - certain COVID funding may be handled by departments unaccustomed to federal funding

- new pass-through entities – subrecipient determination

Identification of COVID-19 funding on face of SEFA

- IIJA (not designated as COVID-19)

Determining when awards exist

CSLFRF - Alternative

How Does the CSLFRF Alternative Differ from a Single Audit (or Program-Specific)

A financial statement audit is not required

A SEFA is not prepared

The requirements for internal control in Uniform Guidance section 200.514(c) are not required for this engagement

- AT-C 315.15 only requires the practitioner to obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements.

Involves testing of the compliance requirements, but they are more narrowly scoped than those in a full single audit

The engagement reporting is simplified

Alternative Compliance Examination Engagement

- Certain eligible recipients can engage a practitioner to perform a compliance examination engagement of the CSLFRF program
- Use AICPA Statements on Standards for Attestation Engagements (AT-C section 315, [Compliance Attestation](#)); and
- [Government Auditing Standards](#) (chapter 7, Standards for Attestation Engagements and Reviews of Financial Statements, focuses on attestation engagements)
- Practitioner tests narrowly scoped compliance requirements relating to A/B – Activities Allowed or Unallowed/Allowable Costs and Cost Principles
- Results in an examination opinion on compliance



Recipient Eligibility Requirements

- ▶ CSLFRF recipients that expend \$750,000 or more during the recipient's fiscal year in Federal awards, and which meet both criteria listed below, have the option to follow the alternative CSLFRF compliance examination engagement:
 1. The recipient's total CSLFRF allocation received directly from Treasury or received as a non-entitlement unit of local government is below the \$10 million revenue loss standard allowance;
AND
 2. Other Federal expenditures not from the CSLFRF allocation in 1. above are less than \$750,000 during the recipient's fiscal year.



What Requirements is the Practitioner to Test?

Examination Objective #1

- Determine whether the recipients used CSLFRF funds for ineligible uses

Suggested Examination Procedures

Obtain an understanding of the design of relevant portions of internal control over compliance regarding unallowable activities by performing some or all of the following:

- a. Inquiries of appropriate management, supervisory, and staff personnel
- b. Inspection of the entity's relevant documents
- c. Observation of the entity's activities and operations

Review a sample of CSLFRF expenditures to determine if recipients used CSLFRF funds for ineligible uses

What Requirements is the Practitioner to Test?

Examination Objective #2

- Determine whether the recipient significantly deviated from its established practices and policies regarding the incurrence of costs.

Suggested Examination Procedures

Obtain an understanding of the design of relevant portions of internal control over compliance and established practices and policies regarding the incurrence of costs by performing some or all of the following:

- a. Inquiries of appropriate management, supervisory, and staff personnel
- b. Inspection of the entity's relevant documents
- c. Observation of the entity's activities and operations

Test a sample of CSLFRF expenditures to determine that the recipient treated costs consistently with its established practices and policies.

Example B-1

Report on Compliance for the U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Program (CSLFRF) Requirements for an Alternative CSLFRF Compliance Examination Engagement

(Unmodified Opinion on Compliance, No Reportable Findings)

Independent Accountant's Report

[Appropriate Addressee]

We have examined [Example Entity's] compliance with the compliance requirements "activities allowed or unallowed" and "allowable cost/cost principles" (the specified requirements) as described in Part IV "Requirements for an Alternative Compliance Examination Engagement for Recipients That Would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving Coronavirus State and Local Fiscal Recovery Funds" of the CSLFRF section of the [insert year of Compliance Supplement] OMB Compliance Supplement (referred to herein as "Requirements for an Alternative CSLFRF Compliance Examination Engagement") during the year ended [insert date]. Management of [Example Entity] is responsible for [Example Entity's] compliance with the specified requirements. Our responsibility is to express an opinion on [Example Entity's] compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in the "Requirements for an Alternative CSLFRF Compliance Examination Engagement." Those standards and requirements require that we plan and perform the examination to obtain reasonable assurance about whether [Example Entity] complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether [Example Entity] complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on [Example Entity's] compliance with specified requirements.

In our opinion, [Example Entity] complied, in all material respects, with the specified requirements referenced above during the year ended [insert date].

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements that have a material effect on *[Example Entity's]* compliance with the specified requirements and any other instances that warrant the attention of those charged with governance. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on *[Example Entity's]* compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over the specified requirements or on compliance and other matters; accordingly, we express no such opinions. The results of our tests disclosed no matters that are required to be reported under *Government Auditing Standards*.

Intended Purpose

The purpose of this examination report is solely to express an opinion on whether *[Example Entity]* complied, in all material respects with the specified requirements referenced above during the year ended *[insert date]*. Accordingly, this report is not suitable for any other purpose.

[Practitioner's signature]

[City and State where the practitioner's report is issued]

[Date of practitioner's report]

Uniform Guidance Update

OMB Uniform Guidance for Federal Awards

- ▶ *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance for Federal Awards)
 - [Electronic Code of Federal Regulations \(e-CFR\)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II) version
 - <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II>
 - Last Update to the UG – December 2013 by OMB
 - Updated/Reviewed every five years – new updates effective November 2020
 - April 4, 2024 - Update approved –updates effective for awards made on or after October 1, 2024
 - Unless federal agencies elect to implement updates sooner

2024 Uniform Guidance

UG Update – 2024 Some Key Updates

- ▶ **Single Audit Threshold**
 - Current – \$750,000 of expenditures of Federal Awards
 - Update – \$1,000,000 of expenditures of Federal Awards
- ▶ **Equipment Threshold**
 - Current – \$5,000 acquisition value
 - Update – \$ 10,000 acquisition value
 - Tribal may use their own internal disposition procedures
- ▶ **De minimis IDCR**
 - Increase from 10% to 15% over MTDC
 - Neither a federal agency or pass-through entity may require recipients to utilize de minimis rate (unless mandated by law)

UG Update – 2024 Some Key Updates

- ▶ Internal controls – expanding .303 section to include taking a reasonable measure to cybersecurity and safeguarding information including PII – personally identifiable information
- ▶ Procurement State & Tribal –
 - Tribal Govts may follow their own policies and procedures used for non-federal funds
 - If no policies must follow .318–.327

Uniform Guidance for Federal Awards Contents

Subpart A – Acronyms and Definitions, 200.xx

Subpart B – General Provisions, 200.1xx

Subpart C – Pre-Federal Award , 200.2xx (federal)

Subpart D – Post Federal Award Requirements, 200.3xx
(recipients)

Subpart E – Cost Principles, 200.4xx

Subpart F Audit Requirements, 200.5xx

Numerous Appendix

“Guidance” or “Requirements”?

- ▶ OMB issues guidance to executive branch agencies
- ▶ Once agencies implement the guidance through agency regulations, the “guidance” becomes “requirements”
- ▶ Agencies may not impose additional or inconsistent requirements unless:
 - Required by law, regulation, or executive order
 - OMB permits an exception, or
 - OMB approves it in the Federal award itself

I have heard the GAQC mention in other events that certain federal agencies have or have not adopted the 2024 UG in their own regulations. What is the significance of this?

Per [COFFA Memo](#), the version of the UG applicable to the auditee is based on the federal awarding agency's implementation of 2 CFR.

2 CFR 200.106 requires federal agencies making awards to implement UG subparts C through F in codified regulations. This is done in either the agency's chapter located in 2 CFR, [Subtitle B](#), or in the agency's regulations located elsewhere in the CFR.

- Some agencies have not yet adopted the 2024 UG; others have adopted the 2024 UG in its entirety; others have adopted with “agency differences”.

OMB anticipates a timing gap between agency implementation of the 2024 UG through award terms and conditions and formal adoption of the 2024 UG in Subtitle B.

Per [COFFA Memo](#), agencies have been implementing the 2024 UG through the terms and conditions of new awards issued on or after October 1, 2024.

* This nonauthoritative table, compiled by the GAQC, only includes the federal agencies currently included in 2 CFR, subtitle B

Do you have a running list of the status of grant-making federal agency adoptions of the 2024 UG in 2 CFR, **Subtitle B**?

Prior 2014 adoption with no exceptions or deviations from 2 CFR 200, as of 12/31/24*	Prior 2014 adoption with exceptions or deviations from 2 CFR 200 and has not adopted 2024 UG, as of 12/31/24*	Adopted the 2024 UG, as of 12/31/24*
Department of Commerce	Corporation for National and Community Service	Department of Agriculture
Department of Homeland Security	Department of Defense	Election Assistance Commission
Department of Veterans Affairs	Department of Education	Gulf Coast Ecosystem Restoration Council
Export-Import Bank of the U.S.	Department of Energy	HHS – partial
Federal Communications Commission	Department of Justice	National Aeronautics and Space Administration
HUD	Department of Labor	U.S. Agency for International Development
National Endowment for the Arts	Department of State	U.S. Agency for Global Media
National Endowment for the Humanities	Department of the Interior	U.S. International Development Finance Corporation
National Science Foundation	Department of Transportation	
Office of National Drug Control Policy	Department of Treasury	
Peace Corps	Environmental Protection Agency	
Social Security Administration	Institute of Museum and Library Services	
U.S. Nuclear Regulatory Commission	National Archives and Records Administration	
	Small Business Administration	

*** This nonauthoritative table, compiled by the GAQC, only includes the federal agencies currently included in 2 CFR, subtitle B**

My client has a 3/31/25, year end and is expecting to have \$875,000 in federal expenditures, with some awards required to comply with the 2024 UG and others the prior UG. Do I have to do a single audit since the new UG indicates the audit threshold is \$1 million?

Yes. The auditor will have to perform a single audit because the \$875,000 in federal expenditures is greater than the \$750,000 audit threshold.

Revisions to the audit requirements in Subpart F of the 2024 UG are not effective until fiscal years beginning on or after 10/1/24 (that is, for audits of years ending 9/30/25, or later).

Audits of year ends prior to this effective date (e.g., 3/31/25, or 6/30/25, year ends) are still under the prior UG audit requirements.

- Note that the auditor will also use the Type A program threshold chart from the prior UG for these audits.

I am auditing a county with a 6/30/25, year-end that has 25 federal programs from 10 federal agencies consisting of multiple awards, some from prior to 10/1/24, and some after that date. How do I determine whether I will be testing compliance against the 2024 UG or the prior UG rules for my major programs?

Clients will need to provide the sources available to verify the appropriate compliance criteria (e.g., awards, T&C, federal agencies communications, etc.).

Generally, the 2024 UG rules are effective for **new awards** entered on or after 10/1/2024.

For **existing awards** issued prior to 10/1/24, federal agencies were encouraged by OMB to apply the 2024 UG to award amendments entered into on or after 10/1/24 and existing awards that will extend into FY 2025 or beyond.

Auditor judgment may be needed and should be documented!

I have been talking to clients about our expectations for what they will need to provide us to support the compliance criteria applicable to their awards. One client has a 12/24 award amendment that is silent on whether the 2024 UG applies. Another client has a similarly silent amendment, but the amendment contains a Web link to the agency's standard T&Cs that states the 2024 UG applies. Which UG requirements apply in these cases?

In the first case, when the award is silent, per the [COFFA Memo](#), the assumption is that the prior UG applies when the amendment does not explicitly state that the 2024 UG applies.

In the second case, where the award is silent, but the agency links to a posting on its Web site, we recommend the client discuss the applicability of the 2024 UG with the federal awarding agency to verify the broad Web statement posted applies to their award.

2 CFR 200.303(a) was revised to add “document” in the following requirement for recipients and subrecipients: “Establish, document, and maintain effective internal control over the Federal awards...” What is the significance of this change?

While term “document” was added to this requirement, the preamble to the 2024 UG *Federal Register* notice indicates that OMB does not consider this to be a change in policy.

Rather, the preamble indicates that the UG already references COSO or the Green Book, both of which include guidance on documenting internal controls. Thus, it states that it is reasonable to expect that if a recipient has established internal controls, some form of written documentation should exist for them.

It also indicates OMB does not intend to require a specific level of documentation and that recipients and subrecipients may use judgment in determining the extent of documentation needed.

The change to 2 CFR 200.303(e) added a requirement that a recipient or subrecipient take “reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information and other types of information.” Is there a specific framework an entity needs to utilize to comply with the revised regulation?

No. Per the preamble to the 2024 UG *Federal Register* notice, OMB did not intend to provide a relevant framework for “cybersecurity and other measures” as was suggested in various comments on the proposed revisions to the UG.

OMB states that it will consider the need to implement a government-wide specific framework in the future, but in the interim, will leave it to the federal agencies to consider providing more specific guidance on the topic, as appropriate.

The 2024 UG increased the equipment threshold to \$10,000 from \$5,000. Consider an entity that has a \$5,000 GAAP capitalization policy. What equipment threshold would the entity use for UG purposes?

The entity would follow its own \$5,000 capitalization policy.

Per the definition of equipment in 2 CFR 200.1, the entity would use the lesser of the capitalization level established by the entity for financial statement purposes, or \$10,000.

In this case, the entity's \$5,000 GAAP capitalization policy used for financial statement purposes is less than the \$10,000 threshold.

Consider a PTE that has a \$5,000 GAAP equipment capitalization policy for equipment that passes funding down to a subrecipient whose GAAP capitalization policy for equipment is \$12,000. What equipment threshold would the subrecipient use for UG purposes?

The subrecipient would use the \$10,000 capitalization policy described in the 2024 UG (unless the subaward establishes a different requirement).

Per the definition of equipment in 2 CFR 200.1, the subrecipient would use the lesser of the capitalization level established by the entity for financial statement purposes, or \$10,000.

In this case, the subrecipient's \$12,000 GAAP capitalization policy used for financial statement purposes is higher than the \$10,000 threshold. Thus, the lesser amount of \$10,000 would be used.

SEFA

SEFA

Prepared by management

Reconciles to accounting and other records used in preparing the financial statements or the financial statements themselves

Auditor uses to base the performance of risk assessments and selection of major programs

Completeness and accuracy critical to avoid missed programs

Auditor issues an opinion as to whether the SEFA is fairly stated in all material respects in relation to the financial statements as a whole (referred to as in-relation-to opinion)

- In-relation-to opinion not same as an "audit" opinion

Auditor is responsible for determining whether auditee includes all required SEFA elements

SEFA – required elements

§200.510

List individual federal programs by federal agency

For a cluster of programs, provide the cluster name, list individual federal programs within the cluster of awards expended must be shown either by federal award or by federal agency and major subdivision within the federal agency

For federal awards received as a subrecipient, the name of the PTE and identifying number assigned by the PTE

SEFA – required elements (continued)

§200.510

Total federal awards expended for each individual federal program and the Assistance Listing number (formerly known as the CFDA number) or other identifying number when the assistance listing number is not available

For a cluster of programs also provide the total for the cluster

Include the total amount provided to subrecipients from each federal program

SEFA – required disclosures

\$200.510

For loan or loan guarantee programs, identify in the notes to the SEFA the balances outstanding at the end of the audit period

Notes that describe the significant accounting policies used in preparing the SEFA

Note whether or not the auditee elected to use the 10% de minimis cost rate

Clusters

A grouping of closely related programs that share common compliance requirements


Clusters are treated as one program for major program determination and testing

Clusters include:

- R&D
- SFA
- Other clusters as defined in the OMB *Compliance Supplement*
– *Part 5*

Clusters

Part 5 of the *Compliance Supplement* identifies each cluster (R&D, SFA, and “other clusters” and the specific/unique requirements for each)



R&D is the only cluster where specific Assistance listing numbers are not identified

- For R&D, auditors look to the definition of R&D and apply judgment to determine inclusion in the cluster

When does federal expenditure occur?

Federal Awards	Basis for Determining When Expended
Grants, cost reimbursement contracts, compacts with Indian tribes, cooperative agreements under the Federal Acquisition Regulations (FAR), and direct appropriations	When the expenditure or expense transactions occur
Amounts provided to subrecipients	When the disbursement is made to the subrecipient
Loan and loan guarantees	When the loan proceeds are used by the nonfederal entity
Donated property, including donated surplus property	When the property is received

When does federal expenditure occur?

Federal awards	Basis for determining when expended
Food commodities	When the food commodities are distributed or consumed
Interest subsidies	When amounts are disbursed entitling the entity to the subsidy
Insurance	When the insurance is in force
Endowments	When federally restricted amounts are held
Program income	When received or used

How are federal awards valued?

Federal awards	Basis used to determine the value of federal awards expended
Loans and loan guarantees (loans), including interest subsidies	Amount expended equals the value of new loans made or received during the audit period plus the beginning of the audit period balance of loans from previous years for which the federal government imposes continuing compliance requirements, plus any interest subsidy, cash, or administrative cost allowance received. (The proceeds of loans that were received and expended in prior years are not considered federal awards expended under the UG when the federal statutes, regulations and terms and conditions of federal awards pertaining to such loans impose no continuing compliance requirements other than to repay the loans.)
Loans at IHE	Amount expended is the same as for loans and loan guarantees (loans), including interest subsidies, mentioned previously, except that when loans are made to students on an IHE but the IHE does not make the loans, then only the value of the loans made during the audit period must be considered federal loans. The balance of loans for previous audit periods is not included as federal awards expended because the lender accounts for prior balances.

How are federal awards valued?

Federal awards

Basis used to determine the value of federal awards expended

Insurance

Amount expended equals the fair value of the insurance contract at the time of receipt or the assessed value provided by the federal agency.

Endowments

Amount expended equals the cumulative balance of federal awards for endowment funds that are federally restricted in each audit period in which the funds are still restricted.

Free rent

Amount expended equals the fair value at the time of receipt or the assessed value provided by the federal agency. Free rent is not considered an award expended unless it is received as part of an award to carry out a federal program.

Food commodities and
donated property (including
donated surplus property)

Amount expended equals the fair value at the time of receipt or the assessed value provided by the federal agency.

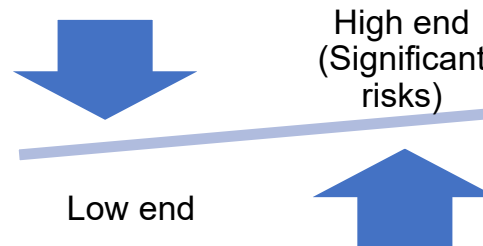
Risk Assessment

SAS 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

Effective for financial statement audits (and compliance audits) with periods ending on or after December 15, 2023

Major areas of revision:

- Clarified work effort related to understanding each of the components of internal control, including enhanced guidance on information technology (IT)
- Concept of spectrum of risk



- Amended definition of significant risks (*not applicable for compliance audits*)

SAS 145: Major areas of revision



- ▶ 5 new inherent risk factors:
 - subjectivity,
 - complexity,
 - uncertainty,
 - change and
 - susceptibility to misstatement due to management bias or fraud.



- ▶ Requires separate assessments of inherent and control risk



- ▶ Requires “sufficient, appropriate” evidence as basis for risk assessment



- ▶ Stand-back requirement for material classes of transactions, account balances and disclosure not assessed as significant
- ▶ *(not applicable for compliance audits)*

SAS 148: Amendment to AU-C Section 935

- Update the appendix, “*AU-C Sections That Are Not Applicable to Compliance Audits*”
- Conform the standard to reflect the issuance of the following standards:
 - Incorporates Amendments for SAS 142 – *Audit Evidence*
 - Incorporates Amendments for SAS 145 – *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*

AU-C Section 935 – *Compliance Audits*

The objective is to obtain sufficient appropriate audit evidence to **form an opinion** and report at the level specified in the governmental audit requirement about whether the entity **complied in all material respects with the applicable compliance requirements**; and

Applicable when an auditor is engaged, or required by law or regulation, to perform an audit in accordance with:

- Generally accepted auditing standards (GAAS),
- *Governmental Auditing Standards*, and
- A governmental audit requirement that requires an auditor to express an opinion on compliance (e.g. Uniform Guidance, HUD consolidated audit guide)

Effective for
fiscal years
ending on or
after
12/15/2023

Except for
the
amendment
s for SAS
142 which
are effective
for fiscal
years ending
on or after
12/15/22

What has Changed?



Risks of material noncompliance

- Identify and evaluate risks of material noncompliance. There are often more than one risk of material noncompliance within a type of compliance requirement.



“Spectrum of Risk” and “Significant Risk”

- Express risk over a spectrum, such as High/Mod/Low (three options) or more depending on firm methodology
- SAS No. 145 clarifications to “significant risk” are expressly scoped out of AU-C 935; **“Significant Risk” doesn’t apply to compliance audit**



Internal controls

- Controls should be identified to address each RMNC
- Controls the auditor must identify, evaluate and test for operating effectiveness (if required by governmental audit requirement, such as UG requiring to plan for a low level of control risk)
- Control activities related to risks arising from use of IT
- Controls over JEs and other adjustments as required by AU-C 240 *Consideration of Fraud in a Financial Statement Audit*
- Must test controls; if ineffective, assessment of RMNC is the same as inherent risk

Steps in a Uniform Guidance Compliance Audit



Risk assessment in a Uniform Guidance Compliance Audit



Obtain an understanding of entity and environment



What are the auditor's responsibilities regarding entity-wide risk assessment procedures?

Auditors perform risk assessment procedures to obtain an understanding of:

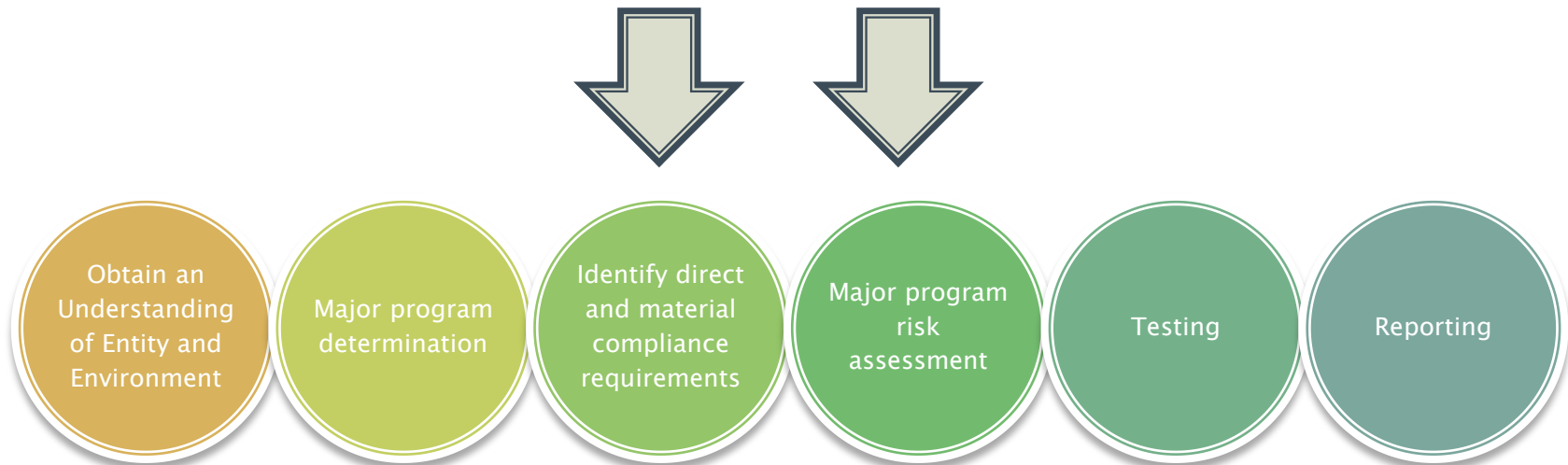
The entity and its environment

- Organizational structure, ownership and governance, and its business model, including the extent to which IT is integrated.
- Industry, regulatory, and other external factors.
- Measures used to assess the entity's financial performance.

Entity's System of Internal Control

- Control Environment.
- Entity's risk assessment process.
- Entity's process for monitoring the system of internal control.
- Information system and communication.

Major program risk assessment



Risk assessment steps



- 1 Obtain an understanding of the major program

- 2 Identify compliance requirements subject to audit

- 3 Determine which compliance requirements subject to audit are direct and material to the program

- 4 For each direct and material compliance requirement, determine which risks of noncompliance (RNCs) are applicable (and thus are identified as a risk of material noncompliance) (RMNC)

- 5 Assesses inherent risk and control risk for each RMNC






Understand the Major Program






- Understand the program and how the entity administered it
 - Compliance Supplement
 - Assistance Listings (SAM.gov)
 - Code of Federal Regulations/US Code
 - Grantor website
 - Grant award documents
 - Questionnaires
 - Evaluation of the program costs

Identify
direct and
material
compliance
requirements

Major
program risk
assessment

Breakout of expenditures by cost category

1	Payroll	
2	Cost transfers	
3	Subrecipient payments	
4	Beneficiary payments	
5	Loans/loan guarantees	

6	Indirect costs	
7	Fringe benefits	
8	Central/internal service (direct costs)	
9	Contractual/OTPS (other than personal services)	
10	Other	

Risk assessment steps



1 Obtain an understanding of the major program



2 Identify compliance requirements subject to audit

3 Determine which compliance requirements subject to audit are direct and material to the program

4 For each direct and material compliance requirement, determine which risks of noncompliance (RNCs) are applicable (and thus are identified as a risk of material noncompliance) (RMNC)

5 Assesses inherent risk and control risk for each RMNC

Part 2: Matrix of compliance requirements subject to audit

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Program Number 10.000 (no matrix)												
10.500	Y	Y	N	N	N	Y	Y	N	N	Y	Y	N
10.511	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.512	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.514	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.515	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.516	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.517	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.520	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.521	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.542	Y	N	N	Y	N	N	N	Y	N	Y	N	N
10.551/10.561 (SNAP Cluster)	Y	Y	N	N	N	Y	N	Y	N	N	Y	Y
10.553/10.555/10.556/ 10.559/10.582 (Child Nutrition Cluster)	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y

For programs not included in Part 2, perform procedures in Part 7

'Y' indicates compliance requirement is 'subject to audit'

OMB mandated federal agencies limit the number of compliance requirements marked 'Y' for a program to six, except for R&D Cluster which is seven

Risk assessment steps

Identify
direct and
material
compliance
requirement
s

1 Obtain an understanding of the major program

2 Identify compliance requirements subject to audit



3 Determine which compliance requirements subject to audit are direct and material to the program

4 For each direct and material compliance requirement, determine which risks of noncompliance (RNCs) are applicable (and thus are identified as a risk of material noncompliance) (RMNC)

5 Assesses inherent risk and control risk for each RMNC

6–requirement mandate – elaboration on “Y” responsibility

- For “Y” matrix entries, auditors will determine whether those requirements could have a Direct and Material effect for their particular client situation
- If auditor determines that a “Y” requirement will not be tested as part of the compliance audit because it is not Direct and Material, auditors will still have to document the related rationale for not testing
- That is, N/A is not an appropriate way to document why a requirement subject to audit is not being tested

Direct and Material Compliance Requirements: What does Direct and Material Mean?

Monetary compliance requirements

- Materiality is established at each major program level (e.g., 5% of total program expenditures)
- Generally, if expenditures for a cost category exceed materiality for the major program, it is an indicator the related compliance requirement is direct and material

Non-monetary compliance requirements

- Professional judgment is used taking qualitative considerations into account to determine whether a compliance requirement is direct and material to the program

Evaluate each compliance category separately and carefully document considerations

If the auditor determines a compliance requirement is not direct and material, **the conclusion must be documented**

What are some best practices for auditors to consider when documenting the determination of direct and material compliance requirements subject to audit?

Use a standard template that reflects the Supplement's conclusions regarding the applicable compliance requirements subject to audit.

Document the rationale to support the direct and material conclusion (do not just document N/A as rationale for not testing).

- Include factual descriptions or evidence within the workpaper documentation to support the basis for conclusions.

Ensure appropriate levels of timely review.

This is an area that federal agencies often cite as problematic!

Example “N/A” documentation

Example 1. Detail testing of the subrecipient monitoring compliance requirement is not performed for AL XX.XXX even though the requirement is noted as subject to audit in the Part 2 matrix. This is because XYZ entity’s expenditure of program funds has not included passing funds down to subrecipients.

Example 2. While the Part 2 Matrix identifies procurement as being subject to audit to AL No. XX.XXX, Client ABC made only one small purchase during the year that is immaterial overall to the program expenditures. Therefore, the procurement type of compliance requirement for AL No, XX.XXX is not direct and material to Client ABC.

Example 3. Detail testing of the eligibility type of compliance requirement not performed. While the requirement is noted as subject to audit in the Part 2 matrix, the Compliance Supplement section for AL No. XX.XXX notes that testing eligibility is the responsibility of the pass-through entity’s subrecipients. Thus, it is to be tested by the auditors of Client ABC’s subrecipients.

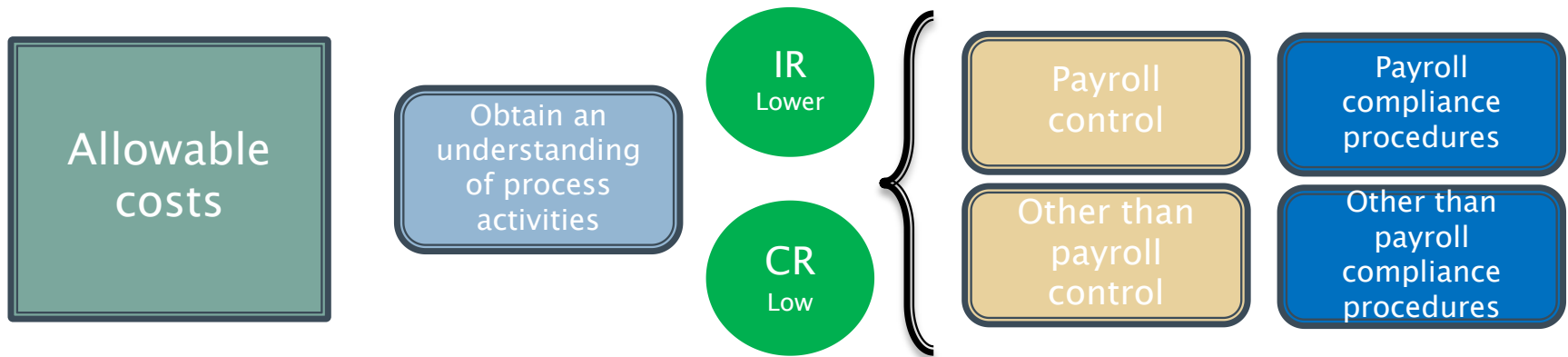
Risk assessment steps

Major
program
risk
assessment

- 1 Obtain an understanding of the major program
- 2 Identify compliance requirements subject to audit
- 3 Determine which compliance requirements subject to audit are direct and material to the program
- ➡ 4 Identify risks of material noncompliance (RMNC) for each direct and material compliance requirement
- 5 Assesses inherent risk and control risk for each RMNC

Individual Identified Risk of Material Noncompliance

- Some auditors may have assessed risk at the overall compliance requirement level (e.g., Activities Allowed/Unallowed), not based on the composition of audit objectives that support overall compliance with the applicable compliance requirement
 - Results in overly broad risk assessment procedures and further audit procedures



Individual Identified Risk of Material Noncompliance

- Instead, an auditor may consider first identifying the audit objectives (i.e., the composition of individual requirements for each compliance requirement) and then identify applicable individual RMNC's at a more specific, disaggregated level
 - Results in a more precise, risk-based audit approach

Identify the Audit Objective:



Identify the Risk of Material Noncompliance

- *Taken Directly from Part 3 – B. Allowable Costs*

Audit Objectives – Direct Costs

- Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
- Determine whether the organization complied with the provisions of 2 CFR Part 200 and CAS (if applicable) as follows:
 - Direct charges to federal awards were for allowable costs.
 - Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing an indirect cost rate.

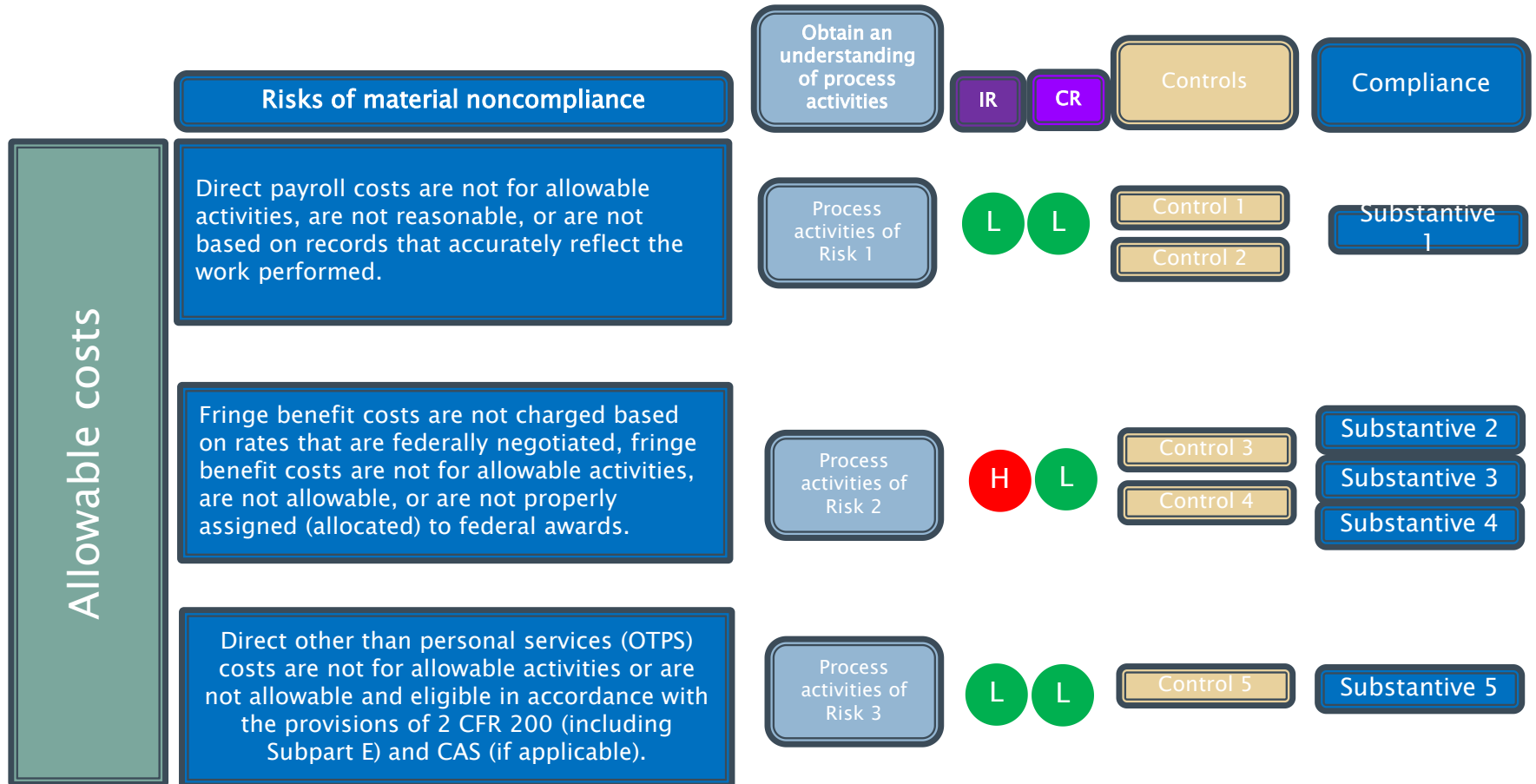


Direct payroll costs are not for allowable activities, are not reasonable, or are not based on records that accurately reflect the work performed.

Fringe benefit costs are not charged based on rates that are federally negotiated, fringe benefit costs are not for allowable activities, are not allowable, or are not properly assigned (allocated) to federal awards.

Direct other than personal services (OTPS) costs are not for allowable activities or are not allowable and eligible in accordance with the provisions of 2 CFR 200 (including Subpart E) and CAS (if applicable).

Disaggregation of RMNCs



Assess level of risk for each RMNC

- Separately assess inherent risk and control risk
- Iterative process – consider whether evidence obtained throughout audit supports or contradicts assessments
- Assess likelihood and magnitude of potential noncompliance when assessing inherent risk for each RMNC
- Think about inherent risk as continuum



Internal Control – auditor responsibility

Auditors must perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a **low assessed level of control risk** of noncompliance for major programs.

Plan testing of internal control over the relevant compliance requirements for each major program

Perform testing of internal control as planned

Report on internal control over compliance

Tackling I/C over compliance step-by-step

- Step 1 Identify the control objective(s)
- Step 2 Understand the auditee's "business process of complying"
- Step 3 Evaluate the risks .."the what could go wrongs"
- Step 4 Understand controls over "the what could go wrongs"
- Step 5 Evaluate whether controls are designed effectively and have been placed into operation
- Step 6 If controls are designed effectively and placed into operation, test key controls for operating effectiveness
- Step 7 **Document entire sequence!**

Control Considerations

Multiple Organizational Units

- Many control components are documented and considered entity-wide controls
 - Control environment
 - Information/communication
 - Risk assessment
- However, programs often administered by various departments, operational units, and management within an organization (Think the cube!!!!)
 - Depending on level/significance of the different internal controls, the auditor may consider separate populations

(This would require some level of work to determine the level of significant; which should be considered as part of the audit documentation.)

Disaggregate RMNCs

For RMNC that has no exceptions

- Assess inherent risk
- Update understating of process activities and PRPs
- Consider whether appropriate to use evidence from original sample
- Consider whether additional sample items need to be selected
- Evaluate whether controls are appropriately designed and operating effectively
- Perform additional control and compliance procedures as considered necessary

For RMNC that has exceptions

- Reassess risk
- Perform additional procedures as necessary
- Evaluate magnitude of noncompliance



Other Considerations

Audit Findings

UG Finding Elements (200.516)



Audit Findings

- ▶ Language related to the specific information to include in audit findings:
 - Federal Award Identification
 - CFDA Title & Name
 - Award Identification number & Year
 - Federal Agency & Pass-through entity
 - Reference number (e.g. 2016-001)
 - Identify if repeat finding and reference will be year finding initially occurred
 - Criteria
 - Condition
 - Statement of cause
 - Statement of the effect or potential effect
 - Known QC must include the CFDA #(s) and the award number(s)
 - Perspective section (isolated, prevalent, type of sampling used)
 - Recommendation
 - Views of Responsible Officials

Audit Findings

▶ Questioned Costs:

- Auditor shall report known/likely questioned costs greater than \$25,000
 - Known > \$25,000
 - Known question costs, when likely qc > \$25,000

▶ Perspective:

- Info to give perspective of the prevalence and consequences
- Should provide information related to sampling used
 - Statistical
 - Non-statistical

Section II of the schedule of findings and questioned costs

- ▶ Section II of the schedule of findings and questioned costs provides the **findings related to the financial statements** that are required to be reported in accordance with the Yellow Book that we discussed earlier (e.g., significant deficiencies, material weaknesses, noncompliance, fraud, and abuse).
- ▶ Section II presents the detail of findings related to the financial statements that are required to be reported in accordance with the Yellow Book plus the context.
- ▶ Each finding in a single audit needs to have a reference number consisting of the four digit fiscal year being audited (or the fiscal year in which the finding initially occurred), a hyphen and a three digit sequence number (e.g., 2016-001, 2016-002, etc.).

Case Study

		True or False
1	Audit findings that relate to both the financial statements and federal awards need to be reported in either Section II or Section III of the schedule of findings and questioned costs but not both Sections II and III.	

Case Study

		True or False
1	Audit findings that relate to both the financial statements and federal awards need to be reported in either Section II or Section III of the schedule of findings and questioned costs but not both Sections II and III.	False. Audit findings that relate to both the financial statements and federal awards need to be reported in both Sections II and III of the schedule of findings and questioned costs. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.

Section III of the schedule of findings and questioned costs

- ▶ Section III of the schedule of findings and questioned costs provides findings and questioned costs **for federal awards** (e.g., material noncompliance related to a major program, questioned costs, significant deficiencies and material weaknesses in internal control over major programs, etc.)
- ▶ **Note.** Each finding in a single audit needs to have a reference number consisting of the four digit fiscal year being audited (or the fiscal year in which the finding initially occurred), a hyphen and a three digit sequence number (e.g., 2016-001, 2016-002, etc.)

Case Study

		True or False
1	Under the Uniform Guidance for Federal Awards, if the auditor identifies questioned costs that <i>do not relate to a major program</i> he/she may still need to report an audit finding in Section III of the schedule of findings and questioned costs.	
2	Audit findings (e.g., internal control findings, compliance findings, questioned costs, fraud, or abuse) that relate to the same issue should be presented as one finding. Where practical, audit findings should be organized by federal agency or pass-through entity.	

Case Study

		True or False
1	Under the Uniform Guidance for Federal Awards, if the auditor identifies questioned costs that <i>do not relate to a major program</i> he/she may still need to report an audit finding in Section III of the schedule of findings and questioned costs.	True. If the auditor becomes aware of questioned costs for a federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000 the auditor will report this as an audit finding.
2	Audit findings (e.g., internal control findings, compliance findings, questioned costs, fraud, or abuse) that relate to the same issue should be presented as one finding. Where practical, audit findings should be organized by federal agency or pass-through entity.	True.

Additional Items of Interest

- ▶ Publication of Single Audit Reports online with safeguards for protected personally identifiable information (Audit Clearinghouse)
 - Auditees & Auditors must ensure PPI is not included
 - Exception for Indian Tribes

Subrecipient Monitoring & Management

Subrecipient – Changes

- ▶ §200.332 – Requirements for pass-through entities
 - Revises information required to be included in subaward to include the subaward budget period end date in addition to the budget period start date
 - Elements of the agreement – don't forget all that are required
 - 15 elements (commonly not seeing all elements included...still ☹)
 - PTEs are to use the subrecipients NICRA.
 - If NICRA doesn't exist, the PTE must determine an appropriate rate through either negotiation of a rate or use of the de minimis rate

Subrecipient (pass through agreement)

- ▶ **Under UG guidance** – Agreements are required to include 15 specific data elements, including (§ 200.331) :
 - Subrecipient name (which must match registered name in DUNS)
 - Federal award identification number (FAIN)
 - Federal award date (see § 200.39, “Federal award date”)
 - CFDA number/name
 - Amount of Federal funds obligated to subs
 - Total amount of Federal award
 - (Continued)

Subrecipient (pass through agreement)

- Project description
- General & Specific Terms/Conditions
- Identification of whether the award is for R&D
- Access to records
- Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414, “Indirect (F&A) costs”)

Subrecipient Monitoring

- ▶ Pass-through entities are required to do the following:
 - Perform risk assessments to determine appropriate subrecipient monitoring.
 - Perform appropriate and ongoing monitoring of each subrecipient. On-site reviews, training, technical assistance, and contracting for an agreed-upon procedure engagement for monitoring are all examples of various monitoring efforts organizations may employ.
 - Review reports that the pass-through entities require of the subrecipient
 - Verify subrecipients have audits, as needed
 - Consider how to address subrecipient noncompliance
 - Issue a management decision for audit findings of the subrecipient within six months

Audit Findings – MGMT Decisions

- ▶ PTEs are responsible for addressing audit findings related to their subaward
- ▶ § 200.332d

(1) Following-up and ensuring that the sub-recipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the sub-recipient from the pass-through entity detected through audits, on-site reviews, and other means. **written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular sub-award.**

(2) Issuing a **management decision** for **applicable** audit findings pertaining only to the Federal award provided to the sub-recipient from the pass-through entity as required by §200.521

Management decision = Management decision means the Federal awarding agency's or pass-through entity's written determination, provided to the auditee, of the adequacy of the auditee's proposed corrective actions to address the findings, based on its evaluation of the audit findings and proposed corrective actions.

Audit Findings – MGMT Decisions

▶ 200.332d

- (4) The pass-through entity is responsible for resolving audit findings specifically related to the sub-award and not responsible for resolving cross-cutting findings.
- If a sub-recipient has a current Single Audit report posted in the Federal Audit Clearinghouse and has not otherwise been excluded from receipt of Federal funding (e.g., has been debarred or suspended), the passthrough entity may rely on the sub-recipient's cognizant audit agency or cognizant oversight agency to perform audit follow-up and make management decisions related to cross-cutting findings in accordance with section §300.513(a)(3)(vii). Such reliance does not eliminate the responsibility of the pass-through entity to issue sub-awards that conform to agency and award-specific requirements, to manage risk through ongoing sub-award monitoring, and to monitor the status of the findings that are specifically related to the sub-award. *Cross-cutting audit finding means an audit finding where the same underlying condition or issue affects all Federal awards (including Federal awards of more than one Federal awarding agency or pass-through entity

Questions?