THE WAY HOME FINANCE BOOTCAMP

Be Audit You Can Be: Common Audit Deficiencies and How You Can Avoid Them

ABOUT YPTC

Professional services firm specializing in nonprofit financial management
8 Regional Offices
Services include accounting, reporting, data visualization, and best practices
YPTC Anywhere: Working remotely and from regional offices nationwide
1,300+ current clients
Nearly 3 decades of nonprofit expertise

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YPTC PRESENTERS

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Manager
Houston, TX

LEARNING OBJECTIVES

1. Provide background information, definitions of key terms, and sources of authoritative guidance for audits, single audits, and federal award compliance.

2. Provide an overview of the audit and single audit process.

3. Understand the 12 types of compliance requirements, how to determine which will apply to specific awards, and common audit findings for each compliance requirement.

4. Provide tips for what to expect and how to prepare and avoid findings as an auditee.
BACKGROUND: WHAT IS A FINANCIAL STATEMENT AUDIT?

- Evaluation to ensure financial statements are **fairly presented** in accordance with Generally Accepted Accounting Principles (GAAP)
- Auditors follow Generally Accepted Auditing Standards (GAAS) to obtain evidence and provide a basis for their **audit opinion**
**BACKGROUND: WHAT IS A FINANCIAL STATEMENT AUDIT?**

- Reasons for an audit:
  - **Law** in some states
  - To comply with **bank covenants**
  - To meet requirements of **funders**
  - To provide **credibility** to your financial statements
  - To solicit professional **advice**

**BACKGROUND: WHAT IS A SINGLE AUDIT?**

- Single Audit Act of 1984
- A “single **financial and compliance** audit” of non-federal organizations receiving federal funds
- Comprehensive, organization-wide examination to determine:
  - Fair presentation of financial statements
  - Sufficient internal controls over compliance
  - Compliance with applicable laws and regulations
BACKGROUND: WHEN IS A SINGLE AUDIT REQUIRED?

- If you are:
  - A non-federal entity
  - that **exceeds** $750,000 or more
  - of federal awards
  - during the fiscal year
- You are required to have a single audit!

DEFINITIONS

How are “Expenditures” defined? (2 CFR 200.34)

1. Charges to a project or program for which a federal award was received
2. Must be in accordance with applicable Cost Principles
3. May be reported on a cash or accrual basis, so long as the methodology is disclosed and consistently applied
**DEFINITIONS**

**How are “Federal Awards” defined? (2 CFR 200.38)**

1. The federal financial assistance that a non-federal entity receives directly from federal awarding agency or indirectly from a pass-through entity.

2. Includes:
   - Grants
   - Cooperative agreements
   - Non-cash contributions or property
   - Direct appropriations
   - Food commodities
   - Loans and loan guarantees
   - Interest subsidies
   - Insurance

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**AUTHORITATIVE GUIDANCE**

**Previously**

- Numerous separate Office of Management and Budget (OMB) circulars
  - A-21
  - A-87
  - A-110
  - A-122
  - A-128
  - A-133

**Now**

- Covered in a single comprehensive framework, *The Uniform Guidance*
  - Combines and supersedes guidance from earlier OMB circulars
  - Formally adopted into the Code of Federal Regulations as 2 CFR 200
AUTHORITATIVE GUIDANCE

Uniform Guidance is broken into 6 parts

A. Acronyms and Definitions
B. General Provisions
C. Pre-Federal Award Requirements and Content of Federal Awards
D. Post Federal Award Requirements
E. Cost Principles
F. Audit Requirements

LEARNING OBJECTIVE

FINANCIAL STATEMENT AUDIT AND SINGLE AUDIT PROCESSES
THE FINANCIAL STATEMENT AUDIT PROCESS

- **Prepare the PBCs**
  - Trial Balance
  - Supporting schedules
  - Draft financials
  - Key documents

- **Determine Risk Areas**
  - Materiality thresholds
  - Misstatements due to fraud or error

- **Conduct Testing**
  - Controls
  - Balances
  - Transactions

- **Prepare & Issue Reports**
  - Final financials
  - Note disclosures
  - Audit opinion
  - Significant findings

- **Prepared by Client (PBC) documents**
  - Items requested by auditors in order to plan and perform their work
  - Financial information:
    - Trial Balance and General Ledger
    - Supporting schedules/reconciliations
    - Draft financials (SFP, SOA, SCF, SFE)
  - Other key documents:
    - Lease agreements
    - Lines of credit and/or other debt agreements
    - Grant award documents
## THE FINANCIAL STATEMENT AUDIT PROCESS

### Risk Assessment

1. Done by auditors
2. Establishes “materiality” thresholds
3. Involves inquiries, analytics, and observations
4. Assessing risk of misstatements due to fraud or error

### Testing Procedures

1. Designed to provide reasonable assurance
2. Assess controls, account balances, and individual transactions
3. Supporting documentation is critical

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### THE FINANCIAL STATEMENT AUDIT PROCESS

- **Prepare and Issue Reports**
  - **Auditee’s** responsibility:
    - Financial statements
    - Note disclosures
    - Supplemental schedules
  - **Auditor’s** responsibility:
    - Independent auditor’s report (their opinion)
    - Communication of significant findings
THE SINGLE AUDIT PROCESS

Preparation: Prepare the SEFA
- Expenditures by CFDA
- Note disclosures
- 2 CFR 200.510(b)

Planning: Determine Major Programs
- Risk-based approach
- Type A vs Type B
- 2 CFR 200.518

Testing: Conduct Testing
- Compliance
- Internal controls
- 2 CFR 200.514 - .520

Reporting: Prepare & Submit Reports
- Additional reports
- Data Collection Form
- 2 CFR 200.515
- 2 CFR 200.512

THE SINGLE AUDIT PROCESS

1. Auditor Selection
2. Prepare the Schedule of Expenditures of Federal Awards (SEFA)
   - Supplemental schedule to the financial statements
   - Lists expenditures by Assistance Listing number
     - Clusters
     - Subrecipient info
   - Include notes to the SEFA
The Schedule of Expenditures of Federal Awards (SEFA)

<table>
<thead>
<tr>
<th>Expenditure of Federal Awards</th>
<th>Federal CFDA Number</th>
<th>Federal Entity Identifying Number</th>
<th>Pass-Through Entity Identifying Number</th>
<th>Total Federal Expenditures</th>
<th>Period Through (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Health and Human Services</td>
<td>93.400</td>
<td>N/A</td>
<td>618,240</td>
<td>3,862,549</td>
<td></td>
</tr>
<tr>
<td>Direct Agency Funded Programs</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Head Start Child Care</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Early Head Start Expansion and Child Care Partnership</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Early Head Start Expansion and Child Care Partnership II</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Head Start Disaster Assistance</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Total Head Start</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Healthy Marriage Promotion and Responsible Fatherhood Grants</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Total U.S. Department of Health and Human Services</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>U.S. Department of Agriculture</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Pass-through program name</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Texas Department of Agriculture/Child and Adult Care Food Program</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Total U.S. Department of Agriculture</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
<tr>
<td>Total Expenditures of Federal Awards</td>
<td>93.400</td>
<td>N/A</td>
<td>4,242,792</td>
<td>1,131,494</td>
<td></td>
</tr>
</tbody>
</table>

Major Program Determination

1. Done by auditors
2. Determines which federal award program(s) will be reviewed
3. Type A programs and Type B programs
4. Low risk auditee status

Testing Procedures

1. Auditors will test major programs on compliance requirements
2. Auditors test for compliance and internal controls thereof
3. Expect to coordinate with program staff
THE SINGLE AUDIT PROCESS

Testing Compliance

- Is the auditee adhering to compliance requirements?
- Evidenced through:
  - Vendor invoices
  - Participant application files
  - Reports and backup support
  - Proposals, bid documents, and vendor evaluation scorecards

Testing Internal Controls

- Will the auditee’s processes prevent/detect noncompliance?
- Evidenced through:
  - Written policies and procedures
  - Reviewer sign-offs
  - Corrective action memos
  - IT access limitations

Additional Audit Reports and Schedules

- Auditor’s opinion covering the SEFA
- Footnotes for the SEFA
- Auditor’s report on internal control over financial reporting and on compliance
  - aka the “Yellow Book Report”
- Auditor’s report on compliance and internal control
  - aka the “Uniform Guidance Report”
- Schedule of Prior Audit Findings
- Schedule of Findings and Questioned Costs
THE SINGLE AUDIT PROCESS

• Data Collection Form (DCF) & Federal Audit Clearinghouse (FAC)
  • Complete the web-based form
    • [https://harvester.census.gov/facweb](https://harvester.census.gov/facweb)
  • Attach PDF of complete audit report package
  • Complete auditor and auditee certification
  • Submission deadline – the earlier of:
    • 9 months after fiscal year end, or
    • 30 days after receipt of audited financial statements

• Other Considerations – State award requirements

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Prepare the SEFA
• Expenditures by CFDA
• Note disclosures
• 2 CFR 200.510(b)

Determine Major Programs
• Risk-based approach
• Type A vs Type B
• 2 CFR 200.518

Conduct Testing
• Compliance
• Internal controls
• 2 CFR 200.514 - .520

Prepare & Submit Reports
• Additional reports
• Data Collection Form
• 2 CFR 200.515
• 2 CFR 200.512

Preparation Planning Testing Reporting
UNDERSTANDING COMPLIANCE REQUIREMENTS

• Terms and provisions that **must be satisfied**
  • Regardless of the awarded amount
  • Even if a single audit is not required

• **Consequences of noncompliance:**
  • Temporary withholding of cash payments
  • Disallowance of all/part of cost
  • Whole/partial suspension or termination of the Federal award
  • Suspension or debarment of the entity
<table>
<thead>
<tr>
<th>#</th>
<th>Compliance Requirement</th>
<th>Description</th>
<th>Common Finding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Activities allowed or unallowed</td>
<td>Activities charged to the federal award must be allowed under statute, regulation, and/or terms and conditions.</td>
<td>Funds used for activities not considered eligible.</td>
</tr>
<tr>
<td>2</td>
<td>Allowable costs/cost principles</td>
<td>Amounts charged to the federal award must be allowable per 2 CFR 200 Subpart E.</td>
<td>Charging payroll based on budget instead of approved timesheets or a time study.</td>
</tr>
<tr>
<td>3</td>
<td>Cash management</td>
<td>Time elapsing between receipt and disbursement of federal funds must be minimized.</td>
<td>Funds drawn too long before disbursement. Costs reported for reimbursement before disbursement has been made.</td>
</tr>
<tr>
<td>4</td>
<td>Eligibility</td>
<td>Only eligible individuals, groups of individuals, or subrecipients may participate in the program, and should only receive the amounts for which they qualify.</td>
<td>Inadequate documentation of eligibility determination.</td>
</tr>
<tr>
<td>5</td>
<td>Equipment and real property management</td>
<td>Equipment and real property acquired with Federal funds must be used in the program, managed appropriately, and disposed of as instructed by the Federal awarding agency.</td>
<td>Physical inventory/count not performed or documented. Improper disposition.</td>
</tr>
<tr>
<td>6</td>
<td>Matching, level of effort, earmarking</td>
<td>Matching: must provide contributions of a specified amount or percentage. Level of Effort: must achieve a specified level of service or expenditures. Earmarking: must stay within a specified minimum or maximum to be used for certain activities.</td>
<td>Improper recognition of in-kind to satisfy matching requirements.</td>
</tr>
</tbody>
</table>
# 12 TYPES OF COMPLIANCE REQUIREMENTS

<table>
<thead>
<tr>
<th>#</th>
<th>Compliance Requirement</th>
<th>Description</th>
<th>Common Finding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Period of performance</td>
<td>Costs must be incurred during the specified period.</td>
<td>Using pay date instead of pay period for payroll costs.</td>
</tr>
<tr>
<td>8</td>
<td>Procurement and suspension and debarment</td>
<td>Procurements must adhere to standards set out in 2 CFR 200.318 - 200.326. Entities that have been suspended and/or debarred must not be contracted with.</td>
<td>Inadequate written procurement policies. Insufficient documentation of procurement procedures.</td>
</tr>
<tr>
<td>9</td>
<td>Program income</td>
<td>Income resulting from the Federally-funded program must be correctly determined, recorded, and used.</td>
<td>Improperly applying program income as an increase to funds available instead of properly reducing the Federal award.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Compliance Requirement</th>
<th>Description</th>
<th>Common Finding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Reporting</td>
<td>Reports required under the program must be complete, sufficiently supported, fairly presented, and submitted on time.</td>
<td>Reports submitted after the specified due date.</td>
</tr>
<tr>
<td>11</td>
<td>Subrecipient monitoring</td>
<td>A pass-through entity must monitor its subrecipients for compliance with applicable laws, regulations, and provisions.</td>
<td>Monitoring activities are informal and/or lack documentation.</td>
</tr>
<tr>
<td>12</td>
<td>Special tests and provisions</td>
<td>These specific requirements are unique to each Federal program.</td>
<td>Buildings being used as an emergency shelter for homeless persons renovated with ESG program funds are not maintained as a shelter for homeless persons for at least three years or at least 10 years if the renovations are considered a major rehabilitation.</td>
</tr>
</tbody>
</table>
UNDERSTANDING COMPLIANCE REQUIREMENTS

• Research applicable requirements **before** accepting an award
• Matrix of Compliance Requirements (2 CFR 200, Appendix XI, Part 2)

<table>
<thead>
<tr>
<th>Requirement</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
<th>J</th>
<th>L</th>
<th>M</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Number</td>
<td>14.169</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>14.164</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
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<tr>
<td>14.187</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>14.188/14.224</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td></td>
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<tr>
<td>14.228</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.231</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
</tbody>
</table>

• **Other sources**
  • Award document
  • Program audit guides, handbooks, or policy manuals
  • Funding agency audit guides, handbooks, or policy manuals
  • Program information from [beta.sam.gov](http://beta.sam.gov)
What to expect

1. Audits can take 4-6 weeks+, with fieldwork lasting 1-2 weeks
2. Auditors will want to speak with multiple staff and ask for many items
3. Audit procedures may vary year to year

How to prepare

1. Obtain and maintain copies of key documents throughout the year
2. Perform periodic reconciliations throughout the year
3. Prepare and provide your PBCs before audit fieldwork begins
**SINGLE AUDIT TIPS, EXPECTATIONS, AND PREPARATIONS**

### What to expect

1. You will need help from program staff
2. Your largest dollar program may not always be your major program
3. PBCs for auditor’s fieldwork/testing will vary depending on major program(s)

### How to prepare

1. Obtain and maintain copies of ALL federal award agreements & amendments
2. Review your Federal award documents alongside the Compliance Supplement
3. Communicate regularly with program staff and stay up to date

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**SINGLE AUDIT TIPS, EXPECTATIONS, AND PREPARATIONS**

- **Schedule** the single audit with your audit firm.
- **Assemble** award contracts/agreements and other general documentation.
- **Prepare** the SEFA.
- **Coordinate** with auditors to complete fieldwork.
- **Finalize** the audit and satisfy reporting requirements.

Single Audit Checklist

(see detailed handout)

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RESOURCES

• 2022 Compliance Supplement:
  • https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

• AICPA GAQC’s Auditee Practice Aid for the SEFA:

• AICPA GAQC’s Illustrative Auditor’s Reports Under the Uniform Guidance:
  • https://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/illustrativeauditorsreports/downloadeddocuments/illustrative-uniform-guidance-reports.pdf

RESOURCES

• Federal Audit Clearinghouse (FAC) Single Audit Checklist, Instructions, and Form:
  • https://facides.census.gov/Files/2019-2021%20Checklist%20Instructions%20and%20Form.pdf

• Grants.gov Learning Center:
  • https://www.grants.gov/web/grants/learn-grants.html

• Single Audit Resource Center:
  • https://singleaudit.org/