COVID-19 Funding Compliance: Preparing for Your First Single Audit

July 2020

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Agenda

- Overview of a Single Audit
- Responsibilities of the auditee
- Compliance requirements
- Internal controls over compliance
- Impact on audit report
- Tips & resources for auditees

Single Audit Terminology

- Office of Management and Budget (OMB) – Responsible for issuance & maintenance of Single Audit regulation & coordinating with grant-making federal agencies
- Uniform Guidance (UG) – Current regulation that implements the Single Audit Act
- Compliance Supplement – Annually updated comprehensive & authoritative guide for Single Audits
- Government Accountability Office (GAO) – Responsible for issuance of *Government Auditing Standards*
- Generally Accepted Government Auditing Standards (GAGAS) or Yellow Book (YB) – Outlines the requirements for audit reports, professional qualifications for auditors, & audit organization quality control

More Single Audit Terminology

- Schedule of Expenditures of Federal Awards (SEFA) – Supplemental schedule to the financial statements recapping expenditures of federal awards
- Catalog of Federal Domestic Assistance (CFDA) number – Identification number assigned to a federal program
- Major program – Program selected to be audited
- Cluster of programs – Grouping of closely related programs that share common compliance requirements
  - Considered as one program for determining major programs
- Federal Audit Clearinghouse (FAC) – Clearinghouse designated by OMB as the repository of record for Single Audits

COVID-19 Funding Subject to Single Audit

YES*

- Provider Relief Fund, Health and Human Services (HHS) – 93.498
- Coronavirus Relief Fund, Treasury – 21.019
- Education Stabilization Fund, Education – 84.425
- Coronavirus Emergency Supplemental Funding Program, Justice – 16.034
- Disaster Assistance Loans, SBA – 59.008
- COVID-19 Telehealth Program, Federal Communications Commission – 32.006

NO*

- Paycheck Protection Program, Small Business Administration (SBA) – 59.073
- Coronavirus Food Assistance Program (CFAP), Agriculture – 10.130
- Coronavirus Relief - Pandemic Relief for Aviation Workers, Treasury – 21.018

*As of November 19, 2020

COVID-19 Funding Subject to Single Audit

YES*

- COVID-19 Testing for the Uninsured, HHS – 93.461
- Grants for New and Expanded Services under the Health Center Program, HHS – 93.527
- Emergency Grants to Address Mental and Substance Use Disorders During COVID-19, HHS – 93.665
- COVID-19 Testing for Rural Health Clinics, HHS – 93.697

NO*

- Economic Injury Disaster Loan Emergency Advance, SBA – 59.072
- OED Resource Partners Training Portal (RPTP), SBA – 59.074

*As of July 14, 2020

Single Audit Overview

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Uniform Guidance

Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

- Subpart A (§200.xx) – Acronyms & Definitions
- Subpart B (§200.1xx) – General Provisions
- Subpart C (§200.2xx) – Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D (§200.3xx) – Post Federal Award Requirements
- Subpart E (§200.4xx) – Cost Principles
- Subpart F (§200.5xx) – Audit Requirements
- Appendices

Check beta.sam.gov to determine which subparts apply to your program

Compliance Supplement

- Part 1 – Background, Purpose, & Applicability
- Part 2 – Matrix of Compliance Requirements
- Part 3 – Compliance Requirements
- Part 4 – Agency Program Requirements
- Part 5 – Cluster of Programs
- Part 6 – Internal Control
- Part 7 – Guidance for Auditing Programs Not Included in this Compliance Supplement
- Part 8 – Appendices

Auditor's guide for auditing federal programs

Objectives of a Single Audit

One audit

- Opinion on the financial statements & schedule of expenditures of federal awards in relation to financial statements
- Opinion on whether federal assistance is being managed & controlled appropriately & used in accordance with regulations

Polling Question 1

- How many Single Audits have you participated in?
  - None
  - One or two audits
  - Three or four audits
  - Five or more audits
  - N/A

Applicability

§200.501
§200.38
§200.502

- **A non-federal entity that expends $750,000 or more in federal awards during the entity's fiscal year is required to obtain a Single Audit**
- States, local governments, Indian tribes, institutions of higher education (IHE), & nonprofit organizations are non-federal entities
  - Single Audit requirements do not apply to for-profit entities*
- A federal award is the federal financial assistance that a non-federal entity receives directly from a federal awarding agency or indirectly from a pass-through entity (as a subrecipient)
  - Medicare/Medicaid & other fee-for-service type payments are generally not considered federal awards
- Amount expended may be reported on cash or accrual basis, as long as basis of accounting is disclosed & consistently applied

*HHS has a regulation making for-profit entity recipients of the Provider Relief Fund subject to a compliance audit

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Defining the Entity to Be Audited

§200.514(a)

- Audit covering the entire operations of auditee, or
- At the option of auditee, audit of each organizational unit that expended federal awards during the audit period
  - Each audit must include the financial statements & schedule of expenditures of federal awards for the organizational unit
  - Example: A skilled nursing facility (SNF) that consolidates into a health system for financial reporting received more than $750,000 of Provider Relief Funds. If the SNF has a standalone financial statement audit, the Single Audit can be conducted at the SNF level. If the SNF does not have a separate financial statement audit, the health system's Single Audit must cover the SNF's expenditures of federal awards
- Financial statements & SEFA must cover the same period

Federal Awards Expended

§200.502

- Must be based on when the activity related to the federal award occurs
  - Expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian tribes, cooperative agreements, & direct appropriations
  - Disbursement of funds passed through to subrecipients
  - Use of loan proceeds under loan & loan guarantee programs
    - Does not include proceeds received & expended in prior years where no continuing compliance requirements other than to repay the loans exists
  - Receipt of property or surplus property
  - Receipt or use of program income
  - Distribution or use of food commodities
  - Disbursement of amounts entitling the non-federal entity to an interest subsidy
  - Period when insurance is in force

Major Program Determination

§200.518

Step 1. Identify Type A programs → Step 2. Identify low-risk Type A programs → Step 3. Identify high-risk Type B programs → Step 4. Determine major programs to audit

Major Program Determination

§200.518

Low-risk auditee?

Yes: Federal awards expended in major programs must be at least 20% of total federal awards expended

No: Federal awards expended in major programs must be at least 40% of total federal awards expended

Polling Question 2

- Did your organization receive funding from more than one program?
  - Yes
  - No
  - N/A

Non-Federal Entity Responsibilities

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Financial Management System

§200.302

- Financial management system must provide for the following
  - Identification, in its accounts, of all federal awards received & expended & the federal programs under which they were received
    - CFDA title & number
    - Federal award identification number & year
    - Name of the federal agency
    - Name of the pass-through entity, if any
  - Records that identify adequately the source & application of funds for federally funded activities
  - Effective control over, & accountability for, all funds, property, & other assets
  - Comparison of expenditures with budget amounts for each federal award
  - Written procedures to implement the requirements of cash management
  - Written procedures for determining the allowability of costs

Internal Controls

§200.303

- Establish & maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, & the terms & conditions of federal awards
- Comply with federal statutes, regulations & the terms & conditions of federal awards
- Evaluate & monitor compliance with statues, regulations, & the terms & conditions of federal awards
- Take prompt action when instances of noncompliance are identified
- Take reasonable measures to safeguard protected personally identifiable information

Auditors are required to test operating effectiveness of internal controls over compliance as part of the Single Audit

Auditee Responsibilities

§200.508

Planning

- Arrange for Single Audit in accordance with §200.509
- Prepare the financial statements
- Prepare the SEFA

During

- Provide auditor with access to personnel & records

Wrap-Up

- Promptly follow up & take corrective action on audit findings, including preparing a summary schedule of prior audit findings & a corrective action plan
- Ensure the Single Audit is properly performed & submitted when due

Auditor Selection

§200.509

- Auditee must follow procurement standards
- Objective is to obtain high-quality audits
  - Request a copy of the CPA firm's peer review report
- "Factors to be considered … include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications & technical abilities, the results of peer & external quality control reviews & price"
- Auditor cannot prepare indirect cost proposal & perform Single Audit if indirect costs during prior year exceeded $1 million

Compliance Requirements

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Compliance Requirements

- Activities Allowed or Unallowed (A)
- **Allowable Costs/Cost Principles (B)**
- **Cash Management (C)**
- Eligibility (E)
- Equipment & Real Property Management (F)
- Matching, Level of Effort, Earmarking (G)
- Period of Performance (H)
- **Procurement & Suspension & Debarment (I)**
- Program Income (J)
- Reporting (L)
- **Subrecipient Monitoring (M)**
- Special Tests & Provisions (N)

Testing requirements for new COVID-19 funding has not yet been published

Compliance Supplement dictates which requirements auditors test, but auditee must comply with all, as applicable

Polling Question 3

- What type of funding subject to Single Audit has your organization received?
  - Provider Relief Fund &/or other HHS programs
  - Coronavirus Relief Fund
  - None
  - Other
  - N/A

Cost Principles – Basic Considerations

Subpart E

- Necessary & reasonable for the performance of the federal award
- Allocable under the principles in 2 CFR Part 200, Subpart E*
- In accordance with policies & procedures (for both federally funded & other)
- Treated consistently as other costs incurred for the same purpose in like circumstances
- In accordance with generally accepted accounting principles (GAAP)
- Not included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period**
- Adequately documented

**Each agency has slightly differing requirements*
***Consider PPP Loans*

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Cash Management

§200.305

- For non-federal entities other than states, payments methods must **minimize the time** elapsing between the transfer of funds from the United States Treasury or the pass-through entity & the disbursement by the non-federal entity
- Amounts & timing of advance payments
  - Minimum amounts needed & timed to be in accordance with the actual, immediate cash requirements in carrying out the purpose of the approved program or project
  - As close as is administratively feasible to the actual disbursements by the non-federal entity for direct program or project costs & the proportionate share of any allowable indirect costs

Procurement – Allowable Methods

§200.320

- Micropurchases – Aggregate dollar amount doesn't exceed the micropurchase threshold
  - Price must be considered reasonable
- Small purchase – Purchases above the micropurchase threshold but below the Simplified Acquisition Threshold (SAT) as defined by the Federal Acquisition Regulation (FAR)
  - Price or rate quotes must be obtained from more than one qualified source
- Sealed bids – Purchases greater than the SAT
  - Bids publicly solicited & fixed-price contract is awarded to bidder with lowest price
- Competitive proposals – When sealed bids aren't appropriate
  - Requests for proposal (RFP) must be publicized (solicited from an adequate number of qualified sources) & identify all evaluation factors & relative importance
  - Entity must have written method for evaluating & selecting recipients
- Noncompetitive proposals – When item is available only from one source, in a public emergency, or competition is deemed inadequate

Subrecipient Monitoring: Pass-Through Entity Requirements

§200.514

- Determine if subrecipient or contractor
- Clearly identify subawards to subrecipients
- Provide certain subaward information at time of subaward
- Evaluate each subrecipient's risk of noncompliance
- Consider imposing specific subaward conditions
- Monitor activities of subrecipients
- Verify subrecipient audited
- Consider results of subrecipient audits
- Consider taking enforcement action for noncompliant subrecipients

Internal Control over Compliance

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Internal Control

- Best practice per UG is for internal controls to be compliant with guidance in either
  - “Standards for Internal Control in the Federal Government” (the Green Book) issued by the Comptroller General of the United States
  - “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Part 6 of Compliance Supplement
  - Summary of the requirements for internal control for both non-federal entities receiving federal awards & auditors performing Single Audits
  - Background discussion on important internal control concepts
  - Appendices that include illustrations of entitywide internal controls over federal awards & internal controls specific to each type of compliance requirement

Objectives of Internal Control

- Transactions are properly recorded & accounted for in order to
  - Permit the preparation of reliable financial statements & federal reports
  - Maintain accountability over assets
  - Demonstrate compliance with federal statutes, regulations, & the terms & conditions of the federal award
- Transactions are executed in compliance with
  - Federal statutes, regulations, & the terms & conditions of the federal award that could have a direct & material effect on a federal program
  - Any other federal statutes & regulations that are identified in the Compliance Supplement
- Funds, property, & other assets are safeguarded against loss from unauthorized use or disposition

Example Internal Controls – Cost Principles

- Control environment – Personnel with federal award compliance responsibilities are properly trained on their responsibilities
- Risk assessment – Management identifies key compliance objectives for types of compliance requirements
- Control activities – Supervisors review & approve invoices, cost allocations, efforts of personnel, fringe benefits & indirect charges for allowability, adherence to cost principles, accuracy & completeness
- Information & communication – Financial & programmatic systems capture, accurately process, & timely report pertinent information
- Monitoring activities – If an internal audit function exists, it is staffed with qualified & competent personnel & it reports directly to those charged with governance

Polling Question 4

- Which of your responsibilities as an auditee do you think will take the most time?
  - Ensuring the financial management system is compliant
  - Establishing internal controls over compliance
  - Updating written policies & procedures
  - Preparing the SEFA
  - Not sure

Single Audit Report

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One Audit, Four Reports

- Report on the Financial Statements
- Report on the Schedule of Expenditures of Federal Awards
- Report on Internal Control over Financial Reporting & on Compliance & Other Matters Based on an Audit of Financial Statements Performed in Accordance with GAGAS
- Report on Compliance for Each Major Federal Program & Report on Internal Control over Compliance

Single Audit Report Components

- Independent Auditor's Report
  - On the financial statements & SEFA
- Financial Statements
- Notes to Financial Statements
- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Independent Auditor's Report in Accordance with GAGAS
- Independent Auditor's Report on Compliance & Internal Control over Compliance
- Schedule of Findings & Questioned Costs
- Summary Schedule of Prior Audit Findings

Report Findings

- GAGAS
  - Significant deficiencies & material weaknesses in internal control over financial reporting
  - Noncompliance with laws & regulations that have a material impact on the financial statements
- Uniform Guidance
  - Significant deficiencies & material weaknesses in internal control for a major program
  - Significant instances of abuse related to a major program
  - Material noncompliance for a major program
  - Likely or known questioned costs greater than $25,000 for a major program
  - Known question costs are greater than $25,000 for any Federal program
  - Unless in another finding, why a major program did not obtain an unmodified opinion
  - Unless in another finding & not prohibited by GAGAS, known or likely fraud affecting a federal award

FAC Submission

§200.512

- Auditee must electronically submit the data collection form (DCF) & reporting package to the FAC
  - DCF summarizes auditor's results
  - Reporting package must include Single Audit report & corrective action plan
- Submission is due within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period
- FAC makes reporting packages available to the public with exception of Indian tribes

Tips & Resources for Auditees

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Tips for Auditees

- Gather & summarize grant information
  - Grant award documentation, including terms & conditions
  - CFDA number for each federal award
  - First draft of SEFA
- Review written policies & procedures
  - Allowability of costs
  - Cash management
  - Procurement
  - Subrecipient monitoring

Tips for Auditees

- Discuss nature & scope of Single Audit with auditor
- Gather records
  - Expenditure justification, including identification of contractors (procurement records) & capital purchases
  - Financial & performance reports
- Re-review compliance requirements for common issues
  - Avoid double-dipping; Reclassification of costs between programs look suspicious
  - Net applicable credits (purchase discounts, rebates & refunds, contract settlements, etc.) against expenditures

Resources

- Uniform Guidance
- Compliance Supplement
- www.beta.sam.gov
- Federal Audit Clearinghouse – Search for Single Audits

Questions?

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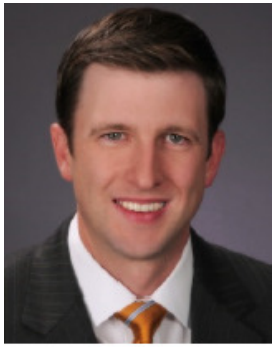

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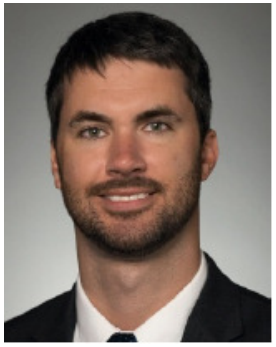

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