

NCDA New England Single Audit Presentation March 28, 2017

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Learning Objectives

- Refresh understanding of the development of current regulations over federal awards
- Review auditee responsibilities in relation to such regulations
- Review key audit guidance and requirements
- Review audit findings encountered in practice
- Discuss best practices

Single Audit Act of 1984 (Amended 1996)

- Required audit of internal control and compliance for nonfederal entities expending certain thresholds of federal awards
- Authorized the U.S. Executive Office of Management and Budget (OMB) to develop guidelines for compliance with awards under the Single Audit Act

Uniform Grant Guidance



- December 2013- OMB issued Title II of the U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (i.e., Uniform Grant Guidance)
- Effective for all federal awards and certain funding increments provided on or after 12/26/14
- Requirements of Subpart F, “Audit Requirements”, are effective for audits of fiscal years **beginning** on or after 12/26/14
- Fiscal years beginning July 1, 2015 were subject to audits under the Uniform Grant Guidance during FY16.
- Early implementation was not permitted

Overview of Subparts – 2 CFR Part 200

- Subpart A – “Acronyms and Definitions”
- Subpart B – “General Provisions”
- Subpart C – “Pre-Federal Award Requirements”
- **Subpart D – “Post-Federal Award Requirements”**
- **Subpart E – “Cost Principles”**
- **Subpart F – “Audit Requirements”**
- Appendices
 - (Appendix XI – Compliance Supplement)
- Streamlined previous cost circulars A-87, A-102, and A-133 (applicable to State and Local Governments)

Federal Programs & Coverage Comparison

Amounts/Guidance	OMB Circular A-133	Uniform Grant Guidance
Single Audit Threshold	\$500,000	\$750,000
Required Audit Coverage High Risk (Low Risk)	50% (25%)	40% (20%)
Type A Program Threshold	\$300,000 (or 3% if total federal awards > \$25M)	\$750,000 (or 3% if total federal awards > \$25M)
Type B Program (For Risk Assessment)	\$100,000 (or 33% Type A if federal awards > \$25M)	\$187,500 (or 25% Type A if federal awards > \$25M)

Note: An entity that does not expend \$750,000 or more of federal awards in a fiscal year is exempt from federal audit requirements for that year.

This does not exempt from other federal requirements concerning awards provided to the entity (includes other UGG subparts aside of F "Audit Requirements").

Low-Risk Auditee Criteria

- Single Audit occurred in each of most recent 2 audit periods (fiscal years)
- Auditor's opinion on the GAAP financial statements was unmodified
- "In relation to" opinion on *Schedule of Expenditures of Federal Awards* (SEFA) was unmodified
- No deficiencies in internal control over financial reporting considered to be material weaknesses
- No substantial doubt about entity to continue as a going concern
- No Type A Program Findings Reported for:
 - Material weakness in internal control over compliance
 - Questioned costs totaling greater than 5% of total federal awards expended
 - No modified opinion of compliance for the major program

Auditee Responsibilities:

- Internal Control over Compliance related to Regulations, Statutes, and Terms and Conditions of Federal Awards
- SEFA Preparation
- Summary of Prior Year Findings & Corrective Action Plan

Establishment of Internal Control

Uniform Guidance - Objectives of Internal Control

1. Effective and Efficient Operations
2. Timely and Relevant Financial and Performance Reporting
3. Compliance with Laws and Regulations

Note: Uniform Guidance also establishes objectives of internal control over compliance:

1. Proper recording and accounting of transactions
2. Compliant execution of transactions
3. Safeguarding of assets against loss or unauthorized use or disposition.

Auditee Responsibilities – Internal Control

Subpart D - Post Federal Award Requirements 2 CFR 200.303 –
Non-federal entities must:

- Establish and maintain effective internal control over federal awards
- Comply with federal statutes, regulations, and terms and conditions of federal awards
- Evaluate and monitor compliance with federal awards
- Take prompt corrective action when instances of noncompliance are identified (including those identified through audit)
- Take reasonable assurance to safeguard sensitive or personally identifiable information (PII)

Auditee Responsibilities – Internal Control (Continued)

- The guidance also states the internal controls over federal awards should be in compliance with “Standards for Internal Control in the Federal Government” (AKA the “Green Book”) issued by the Comptroller General of the United States
 - Also mentions compliance with “Internal Control Integrated Framework” Issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
 - Green Book incorporates COSO Framework by reference – adapts to practices of government



Auditee Responsibilities – Internal Control (Continued)

Green Book/COSO - Five Components of Internal Control

- Control Environment
 - “Tone at the Top” – management and governance attitude towards internal control and influence over rest of entity – “foundation”
- Risk Assessment
 - “What could go wrong?” – identification, analysis, and management of risks relevant to UGG audit
- Control Activities
 - Policies and Procedures to ensure objectives carried out
- Information and Communication
 - Business processes to capture and exchange quality information to internal/external parties and enable employees to carry out responsibilities
- Monitoring
 - Assess the effectiveness of internal control over compliance over time and in response to change
- **17 Subparts highlighted in the Green Book**

Auditee Responsibilities – SEFA Preparation

- Per Subpart D, the nonfederal entity must identify, in its accounts, all federal awards received and expended; as well as the programs under which they were received.
 - Such identification should include, as applicable
 - ◇ CFDA Title and Number
 - ◇ Federal Award Identification and Number
 - ◇ Name of Federal Agency
 - ◇ Name of Pass-Through Entity (if applicable)
 - Award expenditures and revenues should reconcile to the accounting records used to prepare the financial statements for the fiscal year under audit

Auditee Responsibilities – Summary of Prior Audit Findings & Corrective Action Plan

- The auditee is responsible for follow up and corrective action for findings related to federal awards. As part of this responsibility, the auditee is required to prepare a summary schedule of prior audit findings.
 - Should report status of all findings noted in prior year’s schedule of findings and questioned costs.
 - Auditor not required to repeat findings in the schedule of findings and questioned costs if prior year finding corrected, no longer valid, or not warranting further action.
- A corrective action plan must also be prepared to address current year audit findings.
 - Includes responsible party, plan for completion, and anticipated completion date

Compliance Auditing

The OMB Compliance Supplement

- Formerly OMB Circular A-133 Compliance Supplement (now Appendix XI of 2 CFR 200)
- The principal tool to assist auditors in performing compliance audits under Subpart F of UGG
- Provides 12 compliance requirements to be considered in every Uniform Grant Guidance audit:

Compliance Auditing (Continued)

The 12 Compliance Requirements:

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

Compliance Auditing (Continued)

Transitions to the Compliance Supplement:

- Reduced from 14 Requirements to 12
- D – Davis Bacon Act now “Reserved” (*part of CDBG and HOME Special Tests and Provisions per June 2016 Compliance Supplement*)
- K – Real Property Acquisition and Relocation Assistance now “Reserved”
- Period of Availability renamed “Period of Performance” in UGG Compliance Supplement
- Reduction of requirements was applicable to FY15 A-133 audits

Compliance Auditing – Period of Performance

HUD Notice CPD-16-04 issued April 13, 2016

- Additional Transition and Implementation Guidance of Community Planning and Development (CPD) funds for 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- 24 CFR Parts 84 and 85 – “Where the terms of a Federal Award made prior to December 26, 2014, state that the award *will be subject to regulations as may be amended*, the Federal award will be subject to 2 CFR part 200.”
- Encompasses CDBG, ESG, and HOME Programs
- In recognition of confusion that may have existed in implementation, HUD did not issue findings of noncompliance for expenditures used under previous requirements for awards expended between December 26, 2014 to January 6, 2016.

Compliance Auditing – Procurement, Suspension and Debarment

Procurement

- Two year grace period allowed to implement Uniform Grant Guidance procurement requirements for federal awards (2 CFR 200.317)
 - June 30 fiscal year-end – UGG standards required starting in FY18
 - Micropurchases (<\$3,500) – no quotes, but equal distribution amongst suppliers
 - Small Purchases (\$3,500-\$149,999) - Solicit rate quotations from adequate number of qualified sources
 - = or > \$150,000 – Sealed bids
 - Usually construction projects & competitive proposals
 - Lowest responsible bidder should receive award

NOTE THE ENTITY MUST DOCUMENT AND MEET THE ELECTED STANDARD

Compliance Auditing – Procurement, Suspension and Debarment (Continued)

Procurement

- Exceptions – Noncompetitive Proposals
 - 1) The item is only available from a single source
 - 2) Public exigency or emergency for requirement will not permit the delay from competitive solicitation
 - 3) The Federal Awarding Agency or pass-through expressly authorizes noncompetitive proposals in response to a written request from nonfederal entity
 - 4) After solicitation of a number of sources, competition is inadequate

Compliance Auditing – Procurement, Suspension and Debarment (Continued)

Suspension and Debarment

- When entering into transaction (\geq \$25,000) with entity at a lower tier, the non-federal awardee must verify the entity is not suspended or debarred via one of the following:
 - 1) Checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>,
 - 2) Collecting a certification from the entity
 - 3) Adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
- Requirement applies to transactions including subrecipients

Compliance Auditing – Subrecipient Monitoring

Subrecipient vs. Contractor – Comparison of Characteristics:

Subrecipient:

- Determines who is eligible for federal assistance
- Performance is measured in relation to federal program objectives
- Programmatic decision making responsibility
- Adherence to federal program requirements

Contractor:

- Provides goods & services within normal business operations to many different purchasers
- Normally operates in competitive environment
- Services ancillary to program operation in nature
- Not subject to requirements of federal program as result of agreement.

- Pass-through must use judgment in classifying each type of agreement.
-Cognizant or Oversight Agency can assist

Compliance Auditing – Subrecipient Monitoring (Continued)

Required Subaward Elements

- A pass-through entity must provide required information in the subaward document (formerly “contract”)
- Information fully described in 2 CFR section 200.331(a)
 - Subrecipient Name
 - Subrecipient Unique Entity Number (EIN)
 - Federal award date to direct recipient
 - Period of performance start and end date
 - Federal funds obligation (total and current action)
 - Total federal funds commitment to subrecipient
 - Total approved cost sharing
 - Indirect cost rate for award (including if de minimis rate charged)
 - Federal award project description
 - Federal awarding agency and contact official information
 - CFDA number and name
 - Identification of whether the award is for research & development

Compliance Auditing – Subrecipient Monitoring (Continued)

Subrecipient Risk Assessment

- A pass-through entity must now evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring
- This was not an explicit requirement of OMB Circular A-133 Guidance

Compliance Auditing – Subrecipient Monitoring (Continued)

Subrecipient Risk Assessment (continued)

- Risk Factors to Consider:
 - Subrecipient's prior experience with subawards
 - Results of subrecipient's previous audits under UGG and extent to which applicable major program is audited
 - New personnel or substantially changed systems
 - Extent and results of federal awarding agency monitoring (if subrecipient receives other direct funding)

Findings in Practice

- Allowable Costs & Cost Principles:
 - Documentation not maintained to support proper allocation of grant funds charged based upon time and effort dedicated to each award
 - Lack of documented evidence of the operating effectiveness of internal control (ex. Signature on invoice, if required)

Findings in Practice (Continued)

- Procurement, Suspension, and Debarment:
 - Procurement standard not elected or procurement policy not conforming to federal standards
 - Documentation not maintained to support the verification of suspension and debarment status (SAM check or debarment certification)

Findings in Practice (Continued)

- Subrecipient Monitoring:
 - Documentation not maintained to support proper monitoring of subrecipients during the performance period(s) examined for the year under audit
 - ◇ In certain instances, no evidence monitoring performed
 - Subaward documents did not contain material, available required information (i.e., CFDA)

Findings in Practice (Continued)

- Miscellaneous:
 - Reporting - required reporting not timely filed or inadequately supported (SF-425 or Section 3 Summary)
 - Eligibility – beneficiaries of program services did not have their income verified or no longer meet income thresholds
 - Special tests and provisions – rehabilitation and HQS inspections not performed for grant-funded projects
- Sound control to store documentation and make readily available to support the actions related to these requirements

Best Practices and Key Transition Considerations

- Allowable Costs
 - Strengthen processes to ensure system of internal control supports the accurate, allowable, and proper allocation of charges to federal awards
 - ◇ Reasonably reflect total activity for which employee is compensated by the non-federal entity
 - ◇ Comply with the established accounting policies and practices of the non-federal entity
 - ◇ Support the distribution of the employee salaries and wages among specific activities and/or cost objectives if employees work on more than one federal award
 - ◇ **Document**

Best Practices and Key Transition Considerations

- Procurement, Suspension, and Debarment
 - Plan for required implementation of Uniform Guidance Procurement requirements to begin in FY18
 - Structure contract files to support required elements of open competition and cost/price analysis during execution of vendor contracts
 - Perform required verification/certification of suspension and debarment status
 - ◇ **Document**

Best Practices and Key Transition Considerations

- Subrecipient Monitoring
 - Structure subaward documents to include required elements to be presented to subrecipients
 - Perform required assessment of risk of noncompliance with federal awards for subrecipients receiving/expending awards during the fiscal year
 - ◇ Include rationale and nature, timing, and extent of monitoring
 - ◇ **CLA offers a tool to perform and document such risk assessment:**
<http://claconnect.com/Nonprofit/Uniform-Grant-Guidance-Workbook-Subrecipient-Risk-Assessment.aspx>
 - **Document**

Subrecipient Risk Assessment Tool

The screenshot displays the Microsoft Excel interface. The ribbon includes File, Home, Insert, Page Layout, Formulas, Data, Review, View, Add-Ins, Acrobat, Engagement, PPC, and GoFileRoom. The worksheet area shows the following content:

- Row 1:** CliftonLarsonAllen logo and name.
- Row 2:** Subrecipient Risk Assessment Matrix and Monitoring Workbook
- Row 3:** Instructions: *The Code of Federal Regulations Chapter 2, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) describes various compliance requirements related to passing through Federal funds and subsequently monitoring the entities receiving those subawards. This workbook is intended to aid pass-through entities in complying with pre-subaward requirements as well as post-subaward monitoring requirements. Below are instructions on how to complete this workbook. You should plan on completing one workbook for **EACH** subrecipient entity, not each subaward to that entity.
- Row 4:** Entity Wide Tab
- Row 5:** Instructions: Fill out this tab with information about the potential subrecipient's overall entity structure. This tab will aid the pass-through entity in determining whether the entity as a whole is a justifiable subrecipient. If based on the results of the analysis the pass-through entity is able to support awarding Federal funds to the potential subrecipient move on to an "Award Specific" tab.
- Row 6:** Summary Tab
- Row 7:** Instructions: The Summary Tab should not be filled out by the pass-through entity. This tab will auto-populate for up to twenty specific awards to the subrecipient which this workbook is related to. The summary tab then, assuming the award specific tabs are filled out correctly, will inform the pass-through entity whether or not they should inform the subrecipient that they are required to undergo a Single Audit.
- Row 8:** Information to Provide to Sub
- Row 9:** Instructions: The Information to Provide to Sub tab is required to be completed and provided to the subrecipient for each specific subaward they are granted. See instructions on that tab for further guidance.
- Row 10:** Award Specific Tab(s)
- Row 11:** Instructions: The award specific tab is required to be filled out for each subaward granted to the subrecipient. This tab is broken down into two distinct sections. The first section is the pass-through entity's risk assessment over the specific subaward as it pertains to the subrecipient. There are various fields which are required to be considered under the Uniform Guidance, as well as additional fields to help the pass-through entity better support consideration of the subrecipient. The second section is the pass-through entity's monitoring activities in order to be in compliance with the Uniform Guidance. The dates by which these activities are required to be completed will vary based on each grant and should be filled in when the award is granted to the subrecipient. **PLEASE NOTE THAT AWARD SPECIFIC TABS NUMBER SIX THROUGH TWENTY HAVE BEEN HIDDEN FOR EASE OF USE. IF MORE THAN FIVE TABS ARE REQUIRED: RIGHT CLICK ON ANY TAB, CLICK UNHIDE, THEN ADD THE ADDITIONAL AWARD SPECIFIC TABS.**
- Row 12:** © 2015 CliftonLarsonAllen LLP

The bottom of the screenshot shows the worksheet tab bar with the following tabs: INSTRUCTIONS, Entity Wide, Summary Tab, Award Specific #1, Award Specific #2, Award Specific #3, Award Specific #4, Award Specific #5, and Information to Provide to Sub.

Best Practices – Subrecipient Monitoring (Continued)

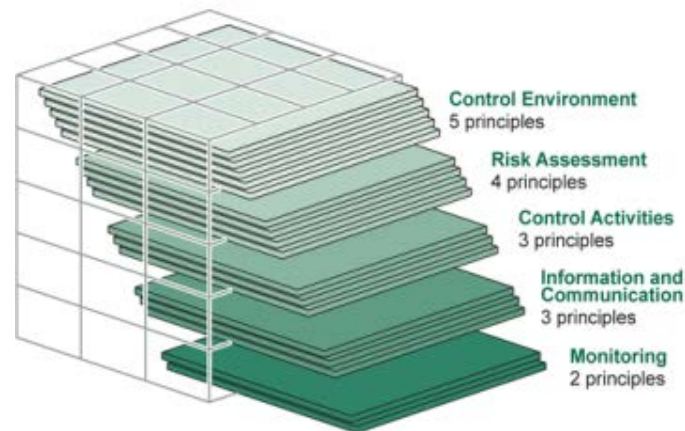
- Perform required monitoring activities in response to risk assessment
 - On-site visits
 - Agreed-upon procedures engagements
 - Review of grant applications for timeliness and appropriateness
 - Review of subaward transactions (requests for funds) for appropriateness and compliance
 - Review of financial and performance reports for timeliness and appropriateness
 - Review of Subrecipient audit reports
 - Evaluation of Findings
 - Issuance of Management Decision
 - Prompt follow-up on Corrective Action



Best Practices and Key Transition Considerations

- Internal Control over Compliance
 - Implement and/or revise current policies to consider the elements of GAO’s “Green Book”; which incorporate the COSO framework by reference.

- ◇ Document



Source: GAO. | GAO-14-704G

Best Practices and Key Transition Considerations

Common theme – Document, Document, Document!

- Award costs not supported by adequate documentation at the time of the audit are subject to treatment as questioned costs.
- When the auditor cannot obtain sufficient assurance of compliance from reviewing the entity's records and procedures, a deficiency in internal control over compliance exists
- The documentation of responsibilities through policies is identified as a principle of control activities within U.S. GAO's Green Book
 - Allows program personnel to implement control activities for assigned responsibilities.



Resources and Citations

- American Association of Certified Public Accountants. *AICPA Audit Guide – Government Auditing Standards and Single Audits*. 1 April 2016
- Electronic Code of Federal Regulations – Title 2, Subtitle A, Chapter II, Part 200 – http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
- U.S. GAO – The Green Book - <https://www.gao.gov/greenbook/overview>
- CLA Single Audit Webcasts
 - ◇ “Planning for Your 2015 Fiscal Year End Single Audits - Changes You Need to Know”. CliftonLarsonAllen LLP. 8 May, 2015.
 - ◇ “Performing Single Audits Under the Uniform Guidance: Audit Considerations for 12/31/15 and Beyond”. CliftonLarsonAllen LLP. 10 November 2015.

Questions?



Thank You!



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