

Highlights of the Single Audit Process



Produced by:
The Grants Management Committee
Chief Financial Officers Council



Preface

The Single Audit Act and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," govern the auditing of Federal awards made to non-Federal entities.

The purpose of this pamphlet is to provide basic information on the single audit process in straightforward and concise language. Users should refer to the Circular and other referenced documents for the language of the actual requirements.

The target audience for this pamphlet are officials of Federal awarding agencies and recipient organizations. Glossary terms are bolded the first time they are used in the narrative.

This pamphlet is a publication of the Grants Management Committee of the U.S. Chief Financial Officers (CFO) Council. An electronic version of the pamphlet, with hypertext links to authoritative and detailed source materials, is posted on the Council's website which is accessible through the Financial Management in Government (or FINANCENET) home page: **www.financenet.gov**. Click on the "U.S. Chief Financial Officers Council," and then on "Grants Management Committee" (Note: Effective December 1, 2001, the CFO Council's Internet address will change to: **<http://cfoc.gov>**).

Suggestions for improvements to the pamphlet can be made by e-mail to the Grants Management Committee at: PL106107@os.dhhs.gov.

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INTRODUCTION

History of the Single Audit

Background

Over \$300 billion of Federal **awards**, representing one-sixth of the annual Federal budget, are expended by **non-Federal entities (NFEs)**. An NFE is a state (including federally-recognized Indian tribes), local government, university, or non-profit organization. The **single audit** is the primary mechanism used by Federal agencies to ensure accountability for Federal awards.

Federal Audit Requirements

The first organization-wide audit requirements were contained in Attachment P, Audit Requirements, to OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments" issued in 1979. Prior to that time, each Federal awarding agency was responsible for the audit of its own awards.

Many NFEs received awards from more than one Federal agency. Frequently the grant-by-grant audit processes of the Federal agencies were not coordinated, resulting in audits that overlapped or were conducted at different times. This inflated the audit costs to the Federal Government and placed an undue administrative burden on many NFEs. Additionally, some NFEs may not have been audited at all. The Single Audit Act of 1984 legislatively established uniform audit requirements and an organization-wide audit process for state and local governments.

Amendments of 1996

While the 1984 Act was a significant step forward in producing quality audits of Federal programs, experience demonstrated that improvement could be made. This led to the Single Audit Act Amendments of 1996 which extended the statutory audit requirement to non-profit organizations, placing states, local governments, universities, and non-profit organizations under the same audit process. It also increased the expenditure level from Federal program(s) from \$25,000 to \$300,000 before a non-Federal entity becomes subject to a single audit.

OMB Circular A-133

Purpose

To implement the requirements of the 1996 amendments, the OMB Circular A-133 was revised and renamed “Audits of States, Local Governments, and Non-Profit Organizations” (**Circular**). The purpose of the Circular is to set standards for consistency and uniformity for the audits required by the 1996 amendments.

The Circular provides specific policy, procedures, and criteria which the Federal agencies, **auditees**, and **auditors** are required to follow.

Organization

The Circular is organized by Subparts:

<u>Subpart</u>	<u>Contents</u>
General:	The purpose of the Circular and definitions of terms used frequently in the single audit process .
Audits:	Specific information on audit requirements and other information related to the performance of the audit.
Auditees:	Specific information on the responsibilities of auditees.
Federal Agencies & Pass-Through Entities:	Specific information on the responsibilities of Federal agencies and pass-through entities (PTEs) .
Auditors:	Specific information on the responsibilities of auditors.

Circular A-133 Compliance Supplement

Purpose

The purpose of the compliance supplement is to provide guidance to the auditor regarding testing Federal program **compliance requirements**.

Programs and Cluster of Programs

The supplement provides audit guidance for over 150 Federal programs identified by **CFDA (Catalog of Federal Domestic Assistance)** number. It also provides a narrative description of each program and contains information to help the auditor understand the purpose of the program and how it operates.

A cluster of programs is a group of closely related programs that share common compliance requirements and are considered one program for audit purposes. Clusters of programs are identified in Part 5 of the Compliance Supplement.

Compliance Requirements

A “Matrix of Compliance Requirements” identifies which of 14 types of compliance requirements may apply to a Federal program.

The auditor is required to utilize the supplement to identify the compliance requirements to be tested. For each type of compliance requirement, the supplement provides one or more audit objectives and suggested audit procedures. The auditor has the option to develop alternative testing procedures as long as they meet the audit objective(s) related to the compliance requirement being tested. Accordingly, the supplement identifies what normally is tested and provides the auditor the flexibility to determine how it is tested.

The supplement also provides guidance to the auditor on the auditing of programs not included in the supplement.

Revisions to the Compliance Supplement

To accommodate new, revised, or terminated programs, OMB issues an annual revision to the supplement. Through their agency **Compliance Supplement Policy Official**, Federal officials can suggest improvements to the supplement. Non-Federal officials can suggest improvements to OMB through an annual notice in the *Federal Register* requesting comments.

What the Single Audit Is Intended to Do

Cost-Effective Audit

The single audit is intended to provide a cost-effective audit of NFEs. Efficiencies can be considerable when an organization-wide audit, or single audit, is conducted in lieu of multiple audits of individual Federal programs. The parties involved in the audit process know beforehand what is expected and what the products of the audit will be. Furthermore, repeated exposures to a structured audit process promote discipline in an auditee's accounting practices.

The auditor provides an opinion as to whether the auditee's **financial statements** are presented fairly, thus providing a tool to assess the financial condition of the auditee.

A risk-based audit approach assures audit coverage to high-dollar, high-risk Federal programs and provides opportunities for the auditing of small-dollar, high-risk programs.

What the Single Audit Is Not Intended to Do

Single audit reports are not intended to provide detailed audit coverage of all the Federal awards or provide detailed financial information for individual awards. To do so would be cost-prohibitive.

OVERVIEW

The diagram on page 8 complements the narrative of this section.

Funding Relationships and Responsibilities

Federal Awarding Agency, Non-Federal Entity, and Recipient

An award made by a Federal awarding agency to an NFE is direct Federal funding. An NFE receiving direct funding is also called a **recipient**.

Federal awarding agencies are required to provide the recipient specific information regarding the award and its Federal requirements.

Pass-Through Entity and Subrecipient

An NFE may provide a portion of its award to another NFE. The NFE providing the award is called a pass-through entity, or PTE. The NFE receiving this indirect Federal funding is called a **subrecipient**. A subrecipient can also be a PTE if it provides indirect funding to another NFE.

A PTE is required to provide the subrecipient specific information regarding the award and its Federal requirements.

Program Requirements

NFEs are required to maintain effective internal control and comply with all applicable laws and regulations.

Single Audit Process

Threshold Expenditure Level

An NFE which expends \$300,000 or more in Federal awards in its fiscal year is required to have a single audit.

Program-Specific Audit

If an NFE expends funds under only one program (excluding research and development) that meets the expenditure level and a financial statement audit is not required, the NFE may arrange for a **program-specific audit** in place of a single audit.

NFEs Not Required to Have an Audit

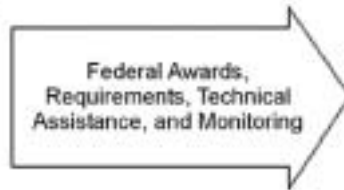
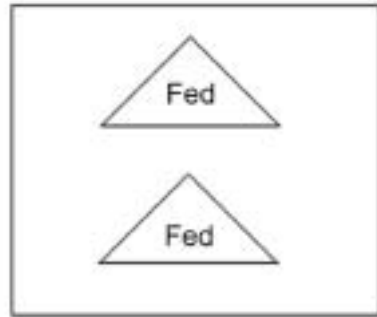
An NFE that expends less than the expenditure level is not required by the Circular to have a single audit. However, upon request, it is required to make its records available for “review or audit” by appropriate officials. In certain circumstances, a PTE may obtain a limited-scope audit of its subrecipient that expends less than the threshold expenditure level.

Audit Requirements	NFEs subject to audit (auditees) must: (1) arrange for a timely audit; (2) prepare appropriate financial statements and a schedule of expenditures of Federal awards; (3) ensure the audit is properly completed; (4) submit the single audit report when due; and (5) take corrective action on audit findings .
Cost of the Audit	The fair share of the cost of the single audit is an allowable cost to Federal awards provided that the audit was conducted in accordance with the requirements of the Circular and the cost is not otherwise prohibited by law or regulation.
Conducting the Audit	The audit must be conducted in accordance with the Government Auditing Standards . The auditor must: (1) audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of Federal awards; (2) gain an understanding of internal control over Federal programs and test internal control over major programs ; and (3) audit and provide an opinion on compliance with requirements for major programs.
Single Audit Report	<p>The single audit report (report) includes:</p> <ul style="list-style-type: none"> • the financial statements (auditee’s responsibility to provide); • a schedule of expenditures of Federal awards (auditee’s responsibility to provide); • auditor's opinions on the fair presentation of the financial statements and schedule of expenditures of Federal awards; • auditor’s report on internal control and compliance pertaining to financial reporting; • auditor’s report on internal control and opinion on compliance pertaining to major programs; • auditor’s schedule of findings and questioned costs; • auditee’s corrective action plans; and • a summary schedule of prior audit findings which includes planned and completed corrective actions (auditee’s responsibility to provide).

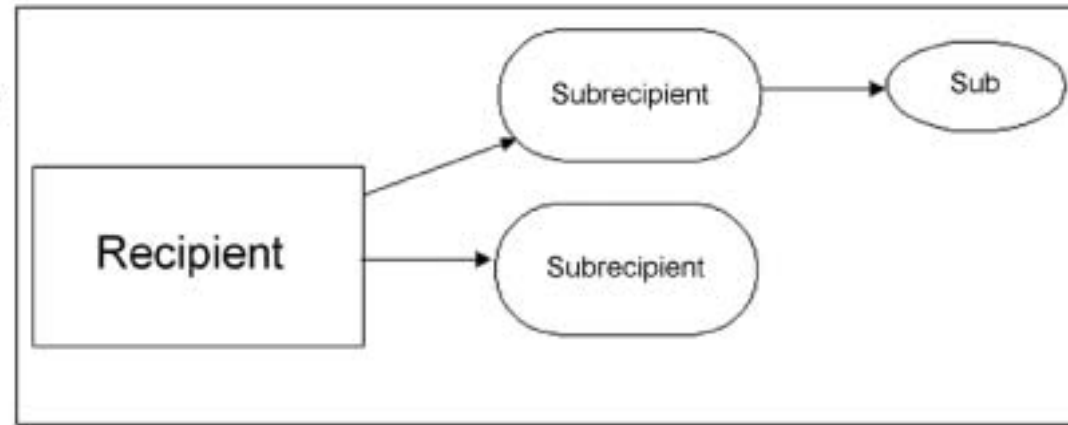
Submission of the Single Audit Report	<p>The auditee is responsible for submitting a report that meets the requirements of the Circular.</p> <p>If the auditee is a subrecipient, it must also forward a copy of a report containing audit findings to affected PTEs. If the report contains no findings, the subrecipient is only required to provide the affected PTEs with a notification that the audit was completed.</p>
Public Record	Most audit reports are a matter of public record.
SF-SAC Form and Federal Audit Clearinghouse	<p>The SF-SAC Form provides information on the results of the audit which is entered into a database maintained by the Federal Audit Clearinghouse (FAC).</p> <p>While both the auditee and the auditor complete parts of the SF-SAC Form, the auditee is responsible for the overall accuracy of the information on the form. The auditee forwards the SF-SAC Form and the appropriate number of reports to the FAC.</p>
Corrective Action Plan	The auditee is responsible for preparing a corrective action plan, taking corrective actions on audit findings, and reporting the status of corrective actions in subsequent reports.
Questioned Costs	An audit finding may include questioned program costs. If any of the questioned costs are disallowed by the management decision , the auditee may have to refund the disallowed amount.
Management Decision	<p>Within 6 months of its receipt of the report, the Federal awarding agency or PTE is required to issue a management decision on each audit finding. The management decision, which may be called various names, is a written evaluation of the audit finding(s) that specifies the necessity for corrective action by the auditee.</p> <p>If the auditee disputes a management decision, it has rights of appeal.</p>

OVERVIEW OF THE SINGLE AUDIT PROCESS

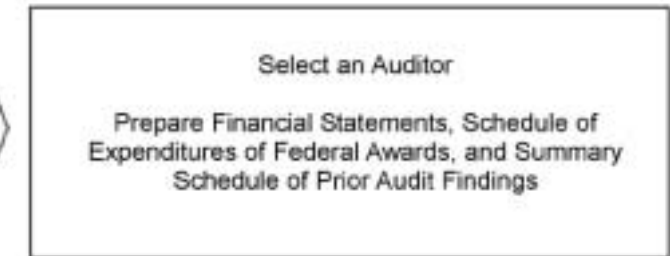
Federal Agencies



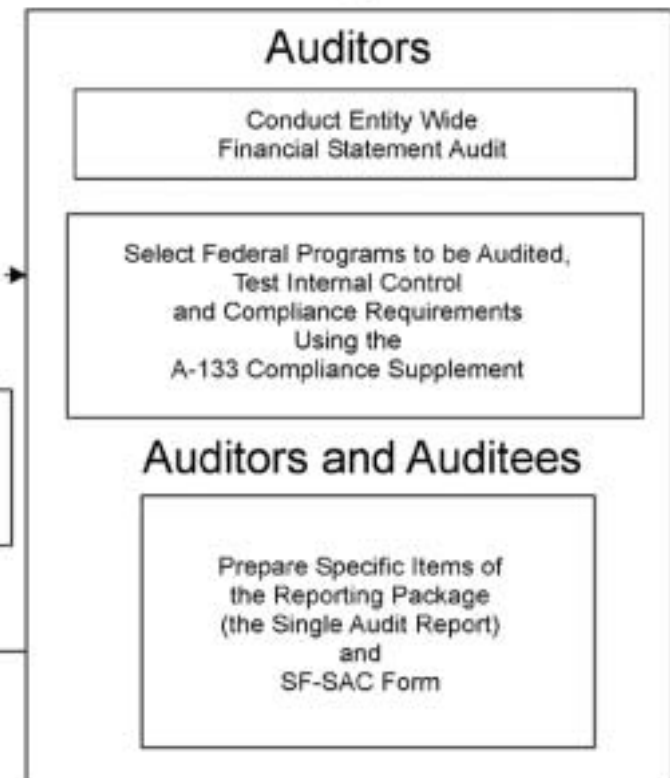
Non-Federal Entities Which May or May Not Need a Single Audit



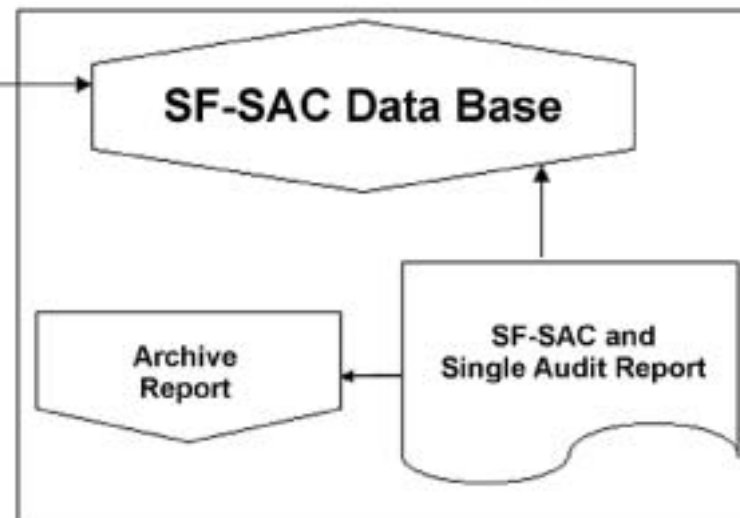
Prepare for Audit



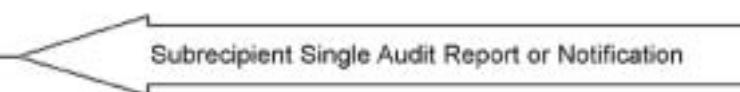
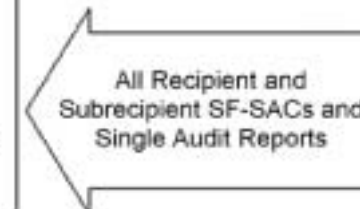
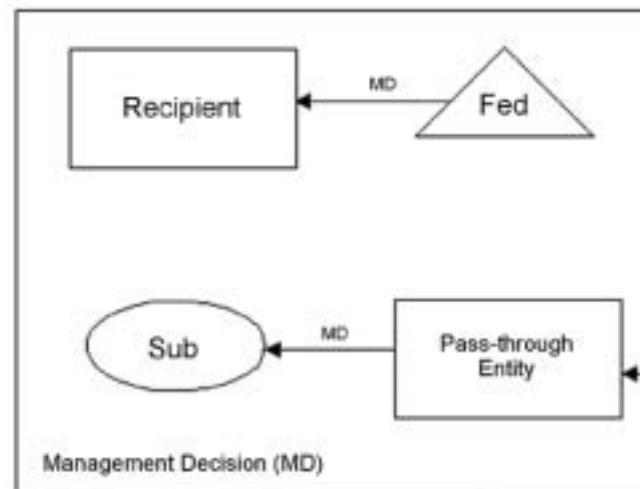
The Single Audit



Federal Audit Clearinghouse



Correction of Audit Findings



Cognizant Agency for Audit

Recipients which annually expend awards in excess of an amount specified by the Circular (currently \$25 million) have a Federal cognizant agency for audit. The cognizant agency for audit provides technical audit advice; considers requests for extensions to the submission due date for the audit report; coordinates the management decision for audit findings that affect more than one Federal agency; coordinates quality control reviews; and conducts other activities required by the Circular.

A recipient's cognizant agency for audit for the 5-year period FY 2001 through FY 2005 is the Federal awarding agency which provided the most direct funding for FY 2000. The cognizant agency for audit will be redetermined for the 5-year period starting with FY 2006. The cognizant agency for audit may be different than the cognizant agency for indirect cost.

Oversight Agency

An NFE which does not have a cognizant agency has a Federal oversight agency. The oversight agency is the Federal awarding agency that provides the most direct funding or, if no direct funding, the most indirect funding. The oversight agency provides technical audit advice and may assume the duties of a cognizant agency.

Quality Control

To ensure that single audits are performed in accordance with applicable auditing standards, the auditor's working papers are subject to a quality control review by the cognizant agency for audit, oversight agency, or Federal awarding agency.

Agency Contact

Questions about the single audit process should be directed to the agency contact(s) listed in Appendix III of the compliance supplement.

PRIMARY RESPONSIBILITIES

Non-Federal Entity

Managing the Award

NFEs are responsible for managing their awards. This includes maintaining or establishing a system of internal control which provides reasonable assurance that it is complying with pertinent laws, regulations, governmentwide requirements, and the specific conditions of its award(s). Additionally, the accounting system must be able to identify all awards received and the amounts expended from each.

Governmentwide Requirements

Governmentwide Requirements Covered by Single Audit			
Type of NFE	Cost Principles	Administrative Requirements	Audit Requirements
State & Local Gov't	A-87	A-102 Common Rule	A-133
Colleges & Universities	A-21	A-110	A-133
Hospitals & Care Facilities	45CFR 74	A-110	A-133
Other Non-Profit	A-122	A-110	A-133

The governmentwide requirements above in OMB Circulars A-87, A-21, A-122, A-133, A-110 and the A-102 common rule are available at the OMB Grants Management web site at <http://www.omb.gov/grants>.

Monitoring Subrecipients

PTEs are responsible for ensuring their subrecipient(s) meet the requirements of the Circular and specific requirements of the award.

PTEs are responsible for preparing management decision(s) on subrecipient audit findings.

Auditee

Preparation of Financial Statements and Schedule

Auditees are responsible for preparing their financial statements and a schedule of expenditures of Federal awards. The statements and schedule must be prepared for the same time period.

Selection of an Auditor

Selecting an auditor to conduct the audit required by the Circular can be the auditee's most important activity in the audit process. For some governmental auditees, state or local law places the authority and responsibility to conduct or arrange for the audit with an independent government auditor. Other governmental auditees may have the option to engage an independent government auditor or a public accounting firm. Non-governmental auditees normally must engage a public accounting firm to conduct the audit.

The auditee is responsible for ensuring the auditor has the professional qualifications and technical abilities to conduct the audit. The Circular provides information to assist the NFE in evaluating the sufficiency of potential audit services (also see page 15 - Supplemental Information Available on the Internet).

Current Findings - Corrective Action Plan

The auditee is responsible for (a) preparing a corrective action plan for current-year audit findings and (b) taking action to correct the reported findings.

Prior Findings - Corrective Action Status

The auditee is responsible for reporting the status of its corrective action for each prior-year finding in the summary schedule of prior audit findings until the finding has been corrected or the finding is no longer valid or warrants corrective action.

Submission to the Clearinghouse

The auditee is responsible for submitting the SF-SAC Form and the audit report to the Federal Audit Clearinghouse within 30 days of receipt of the auditor's reports, but no later than 9 months after the end of the auditee's fiscal year. To take advantage of the on-line editing feature, the auditee is encouraged to use the Internet to electronically submit the SF-SAC Form to the FAC.

Until the FAC receives an acceptable audit report and SF-SAC Form, the auditee does not receive credit for meeting the audit requirement.

Auditor

Requirements for the Auditor

The auditor is required to:

- perform the audit in accordance with the *Government Auditing Standards*;
- apply risk assessment procedures to determine which programs will be audited; a program that is audited is called a “major program;”
- determine whether the financial statements and schedule of expenditures of Federal awards are presented fairly;
- gain an understanding of internal control over Federal programs and test internal control over major programs;
- determine whether the auditee has complied with the compliance requirements which may have a direct and material effect on each of its major programs; and
- follow up on prior audit findings.

Audit Finding

The auditor is required to present the following as an audit finding in the schedule of findings and questioned costs:

- a deficiency in internal control related to major programs;
- material noncompliance with the laws, regulations, or contract or grant provisions related to major programs;
- for major programs, questioned costs which exceed, or are likely to exceed, \$10,000 for each type of compliance requirement;
- for non-major programs, questioned costs which exceed \$10,000;
- detected fraud which affects a program; and
- misrepresentation of the status of a prior audit finding.

The auditor is required to prepare specific components of the audit report and sections of the SF-SAC.

Federal Audit Clearinghouse

Bureau of the Census OMB has designated the Bureau of the Census to operate the Federal Audit Clearinghouse (FAC). The FAC serves as the central collection point, repository, and distribution center for single audit reports.

The primary functions of the FAC are to:

Receive and Archive the SF-SAC Form and Single Audit Report

- receive the SF-SAC Form and the audit report from the auditee;
- archive copies of the SF-SAC Form and audit report;

Forward Audit Report

- forward a copy of the audit report to each Federal awarding agency which has provided direct funding and which has a related audit finding;

Maintain Data Base

- maintain an electronic database of the SF-SAC Forms which is accessible via the Internet; and

Inquiries

- answer inquiries concerning submission requirements of the Circular at 1-888-222-9907 or govs.fac@census.gov.

Supplemental Information Available on the Internet

www.ignet.gov

IGnet

- The web site maintained by the Inspectors General includes a single audit library with hypertext links to several of the source materials referred to in this pamphlet

www.financenet.gov
Effective 12-01-01
<http://cfoc.gov>

Chief Financial Officers Council

- Important public financial management and accounting information

www.gao.gov

The United States General Accounting Office:

- *Government Auditing Standards*
- *Standards For Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1; Nov. 1999)
- *How to Avoid a Substandard Audit: Suggestions for Procuring an Audit* (National Intergovernmental Audit Forum; May 1988)

www.omb.gov

The Office of Management and Budget:

- *Circular A-133, Federal Cost Principles and Administrative Requirements Circulars*
- Compliance Supplement is available free on the OMB web site. Printed and CD ROM copies may be purchased from the Superintendent of Documents, U.S. Government Printing Office, P.O. Box 371954, Pittsburgh, PA, 15250-7954. The telephone number is 202-512-1800. The document must be identified as the *Circular A-133 Compliance Supplement* with the current year GPO stock number.

www.cfda.gov

Catalog of Federal Domestic Assistance

- Searchable Database of Federal Award Programs

<http://harvester.census.gov/sac>

Federal Audit Clearinghouse

- Searchable Database of Single Audit SF-SAC Data

www.auditforum.org

Mid-America Intergovernmental Audit Forum

- Guide On Selecting An External Auditor

GLOSSARY

Auditee	A non-Federal entity that expends Federal awards which must be audited pursuant to the provisions of the Circular
Audit Finding	A deficiency that the auditor is required to report in the schedule of findings and questioned costs
Auditor	A public accountant or a Federal, state, or local government, audit organization which meets the <i>Government Auditing Standards</i>
Award	Federal financial assistance (e.g., grants), and Federal cost reimbursement contracts, including awards received from pass-through entities
Circular	OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>
Catalog of Federal Domestic Assistance (CFDA)	A governmentwide compendium of all Federal programs, grants and other activities which provide assistance to the American public; each Federal program is identified by a unique 2-digit, 3-decimal number
Compliance Requirement	A requirement which is applicable to a program and may be included in the compliance supplement requirements for the auditor to test
Compliance Supplement Policy Official	The Federal awarding agency policy official responsible for ensuring that program objectives, procedures and compliance requirements are provided to OMB for inclusion in the Supplement
Federal Audit Clearinghouse (FAC)	An agent for OMB to maintain a governmentwide database of single audit results and reports
Financial Statements	Financial statements that reflect the auditee's financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited
Government Auditing Standards	Standards for auditing government organizations and programs issued by the United States General Accounting Office and commonly referred to as the "Yellow Book"

GLOSSARY

Internal Control Over Federal Programs	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding proper accounting and reporting of transactions, compliance with laws and regulations, and safeguarding assets
Major Program	A program that is audited
Management Decision	An evaluation made by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan, and the issuance of a written decision as to what corrective action is needed
Non-Federal Entity (NFE)	A state (including federally-recognized Indian tribes), local government, university, or non-profit organization
Pass-Through Entity (PTE)	A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program
Program-Specific Audit	An audit of one Federal program based on provisions in the Circular
Recipient	A non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program
SF-SAC Form	A data collection form submitted to the Federal Audit Clearinghouse which provides information about the auditor, the auditee and its Federal programs, and the results of the audit
Single Audit	An audit of a non-Federal entity's financial statements and Federal awards which meets the requirements of the Circular
Single Audit Process	The audit process prescribed in the Circular
Subrecipient	A non-Federal entity that expends Federal awards from a pass-through entity to carry out a Federal program; a subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency