

Understanding Single Audits

The organization-wide review may be a daunting task. But it can also show your agency's management how to improve financial controls and operate more efficiently.

By Henry Flood

If your organization receives more than \$300,000 in federal grants, loans or prime contracts annually, it is subject to the provisions of the Single Audit Act. A single audit is a rigorous, organization-wide review that includes both financial and compliance components. It's the government's way of assuring that recipients of major federal grants and other forms of financial support are doing what they're supposed to do with the money—and that they adhere to a uniform set of accounting standards.

Sometimes a single audit is called an A-133 audit. That's a reference to OMB Circular A-133, which, along with its companion Compliance Supplement, lays out the procedures that must be followed by states, local governments, and nonprofit organizations when conducting a single audit.

If your organization is new to this process, you may be wondering:

- What are the practical and legal obligations that a single audit entails?
- How do we go about selecting an independent auditor?
- What are the auditor's obligations?
- What do federal agencies and others do with my audit report after it is completed?
- How do we follow up and resolve compliance findings in an audit?
- How do funding sources track the thousands of audits they receive each year?

This article is intended to give you the short answers to those questions. Parenthetical references throughout the text indicate where in OMB Circular A-133 you will find more detailed information. Some funding agencies have codified OMB Circular A-133 as part of their own regulatory schemes, but

— Page 1 of 10 —

Copyright © 2002, The Grantsmanship Center.

This article may not be reprinted, reproduced, or retransmitted in whole or in part without express written consent of The Grantsmanship Center.

<http://www.tgci.com>

(800) 421-9512

[Join Our Mailing List](#)

they have retained the OMB uniform section numbering (the §___. symbols that precede each citation).

Before plowing through Circular A-133, it's a good idea to familiarize yourself with the definitions contained in §___.105. They crop up again and again throughout the document, and understanding them will make the task of deciphering the circular a lot easier.

Are You Covered? § ___.200 & § ___.205

The main factor that determines coverage under the Single Audit Act is the amount of federal assistance that your organization receives in a year. Presently, the threshold is \$300,000 in grants, cooperative agreements, loans and prime federal contract awards. OMB has proposed raising this threshold to \$500,000 (see article on page 23). If enacted, this will exempt about 6,000 organizations from having to conduct a single audit.

The cost rules and OMB Circular A-133 prohibit charging the costs of audit services to a grant if a single audit is not required [see § ___.230 (b) (2)] . If you have doubts about whether your organization is indeed subject to a single audit, there are several sources you can contact for advice and a regulatory coverage interpretation.

Start by asking the auditor who conducts your organization's usual audit. The grants management official responsible for your largest source of federal funding is also a good source of initial information. Other resources are the Single Audit Clearinghouse and the Inspector General for Audit within the federal agency that awards most of your grant dollars.

Engaging an Auditor § ___.230 & § ___.305

Once you have determined that your organization is subject to a single audit, you will need to engage a qualified audit firm. Because single audits are an eligible grant expense, you must follow the procurement standards of either the Common Rule, which applies applies to states, local governments and Indian Tribes (see Common Rule §___.36), or the standards of OMB Circular A-110, which applies to nonprofits, hospitals and colleges and universities (see A-110 §___.40-48).

When you engage an auditor, you are purchasing a professional service. This is a negotiated acquisition, and it should be the result of your issuing a request for proposals. The firm you select should be the one that submits the best technical proposal in response to your RFP.

To get good responses, you need to issue a good request. Describe the sources and amount of federal assistance to be audited and the purposes for which the funding has been spent. The more specific you can be about the scope of work to be performed, the more accurate will be your proposals. You can save substantially on audit fees through pre-audit preparation, and the extent of that preparation should be described in your proposal so audit firms can gain some idea of how audit-ready you actually are.

Your RFP should also ask each respondent to supply:

- A statement of general qualifications
- A statement of experience performing single audits, together with a listing of prior single audit engagements for the past five years
- A statement regarding quality review of single audits performed
- A preliminary proposed price based on your description of the audit engagement
- A listing of members of the proposed audit team and their respective qualifications.

Once you have received your responses, narrow the field to the three or four firms that you believe are the most qualified to perform the audit. Ideally, these top-rated firms should be interviewed and then ranked from least to most qualified. Then negotiate with the top-rated firm to see if you can reach a satisfactory agreement. At least one member of your interview team should be a comptroller, internal auditor or an external auditor not involved in the procurement.

One of the best sources for assistance in how to engage an auditor is the Government Finance Officers Association. The American Institute of Certified Public Accountants, a trade association for the accounting profession, also has some good guidelines for auditor selection.

What Does a Single Audit Encompass? § ____.500

A single audit covers your financial books of account, the general management of your organization, your systems of internal control and a review of federal assistance that you have received during the year. The financial review examines your books of account, your financial statements and federal award transactions to determine if they fairly and accurately describe the results of your operations in accord with generally accepted accounting principles (GAAP). Generally accepted government auditing standards (GAGAS), which are broader in scope than GAAS and which include additional requirements, are applied in examining your grants, loans or other covered federal assistance.

A compliance review examines your organization as a whole and your covered federal awards. It asks:

- Is your organization as a whole and the federal assistance it receives efficiently managed?
- Does your system of financial management meet the requirements laid out in OMB's grant administration circulars?
- Are financial and accounting duties properly segregated to prevent conflicts of interest?
- Do the federal assistance records and observations of program operations demonstrate compliance with the general and special conditions attached to the various federal awards received?

These general principles of financial and compliance auditing form the basis for allocating audit obligations among federal assistance recipients, independent auditors, granting agencies and "cognizant audit agencies" as described throughout OMB Circular A-133.

Recipient Obligations § ____.300-.320

As a recipient of federal assistance, your organization is required to:

- Maintain systems of internal control over all federal programs so that you can demonstrate compliance with pertinent laws and regulations.

- Identify all grant programs by CFDA number and title, awarding agency, year of award and pass-through entity if applicable.
- Maintain similar information for contracts, loans and loan guarantees (such as award number, agency, project title and pass-through entity if applicable).
- Ensure that audits mandated by OMB Circular A-133 are in fact performed and filed with all federal entities when required.
- Follow up on any audit findings, questioned costs or compliance questions with specific responses and, when necessary, take corrective action that resolves current or previous findings.
- Sign the official data collection and single audit submission form prepared jointly by the independent auditor and recipient organization. (Even if the auditor prepares this form, your organization is still legally responsible for its accuracy and timely submission.)

Auditor Obligations § __.500-.530

An auditor is someone who is professionally trained in accounting and auditing and licensed as an expert. For a single audit (or, if you elect, for a program-specific audit) you should expect your auditor to:

- Plan and conduct the audit in accord with GAAP and, especially, GAGAS.
- Determine if your organization-wide and federal assistance financial statements are presented fairly in accord with GAAP and GAGAS.
- Determine if the various expenditure statements for federal programs are presented fairly in relation to your financial statements as a whole.
- Perform tests that demonstrate an understanding of your system of internal controls in order to support a "low assessed risk" for major programs.

- Determine through review and testing if your organization has complied with laws, regulations and the specific terms of federal assistance awards.
- Follow up on the status of any previous audit findings.

When an auditor performs these tasks, the end product may be a series of reports to the recipient organization, though it is usually a single combined report. The audit report must contain the following:

- An opinion (or disclaimer of opinion) as to whether the financial statements and schedules of expenditures are fairly presented in accord with GAAP.
- A report on the status of internal controls relative to financial statements and major programs that describes the scope of testing, test results, and, if applicable, a schedule of questioned costs.
- A compliance report, describing the degree to which the organization has complied with laws, regulations and the terms and conditions of federal assistance awards.
- A schedule of findings and questioned costs, as required by § ____.510 of OMB Circular A-133.
- A description of major programs using the risk-based methodology set forth in § ____.520 of OMB Circular A-133.
- A determination concerning federal programs, i.e., whether the recipient of federal assistance is a "high risk" or "low risk" (see § ____.525 and § ____.530 for guidance).
Funding Agency Obligations § ____.400 (c)

Awarding agencies have their own responsibilities in the audit process. These include:

- Ensuring that audits have been completed and filed on time.
- Providing technical assistance to auditors and recipients who may have audit questions.

- Issuing a management decision on financial and compliance audit findings within six months after an audit report has been submitted,
- Ensuring that recipients follow up on audit findings and that a corrective action plan is implemented if necessary.

Cognizant Audit Agency Obligations § ____.400 (a-b)

Recipients of more than \$25 million in federal assistance are assigned to a "cognizant agency" for audit supervision. (OMB has proposed raising the cognizant agency threshold from \$25 million to \$50 million.) Normally, this is the agency that has provided the largest share of federal funding. As a rule, cognizant agency functions are operated within the agency's Office of Inspector General for Audits.

The essential role of a cognizant agency is to:

- Coordinate audit oversight of large-dollar recipients.
- Consult with awarding agencies who make awards to recipients subject to cognizant agency oversight.
- Provide technical assistance to auditors and recipient organizations.
- Obtain or conduct quality reviews of single audits.
- Advise auditors (and recipients) of deficiencies in a single audit and, in some cases, require corrections to problem audits.

Pass-Through Agency Obligations § ____.400 (d)

Agencies that "pass through" substantial amounts of federal funding to sub-recipients must:

- Clearly identify the sources of their awards, noting the CFDA number, title, and source of funding.
- Clearly identify other non-grant federal assistance.

- Ensure that single audits are performed by their sub-recipients when required.
- Provide technical assistance to auditors and recipients.
- Issue management decisions on audit findings within six months and ensure that findings are resolved through corrective action.
- Monitor sub-recipients to ensure compliance with pass-through assistance requirements.
- Require sub-recipients to permit access to their records by pass-through agencies and higher-tier auditors if necessary.

Who Gets Those Audits? § ____.320 & § ____.505

Regardless of the scope of your audit coverage under OMB Circular A-133, the federal audit clearinghouse and one or more federal awarding entities will be interested in getting your single audit package.

You must submit a complete package, consisting of:

- The Standard Form Single Audit Clearinghouse (SF-SAC) data collection form signed jointly by your organization's top official and the independent auditor.
- Financial statements and schedules of federal award expenditures.
- Summary schedule of prior audit findings (usually not applicable to first audits).
- Auditor's report.
- Corrective action plan (if applicable).

This package is submitted to the OMB-designated Single Audit Clearinghouse, which distributes them to the appropriate awarding agencies. If the schedule of findings and questioned costs discloses relevant audit findings, you should also send a package to the relevant funder. If your organization is also a pass-through recipient of federal awards, a complete audit package must be sent to the pass-through awarding entity.

Even though the information is specified on your SF-SAC data collection form, you should clearly state who should get the audit packages in your transmittal letter. Some grant recipients also send courtesy audit packages directly to their awarding agencies to ensure that all appropriate agencies get the audit package. Don't forget that if you are participating in the cognizant audit agency program, an audit package must be sent to your designated cognizant audit agency. Recipients of federal assistance should retain one copy of every audit package for at least three years. Many organizations have a policy of retaining them for at least five years.

Audit Benefits

The success of a single audit depends on the cooperation and professionalism of the organization being audited, the skill of the firm performing the audit, and the helpfulness of federal agency staffs. A successful audit is one that:

- Fairly and accurately presents the financial statements of the organization as a whole and the various federal program expenditure statements.
- Accurately discloses the management conditions prevailing in the audited organization and identifies any material weaknesses.
- Expresses proper professional opinions about the financial and compliance operations of the audited organization.
- Discloses material and non-material financial and compliance risks and findings.
- Offers concrete guidance for addressing any questioned costs and other audit findings.
- Serves as a tool for audited organizations—illuminating what they're doing well and helping them to correct financial and managerial deficiencies.

Single Audit Resources

- <http://www.whitehouse.gov/omb/grants> - OMB Grants Management Web site (The OMB circulars, standard forms, and links to audits and grants administration are here. Compliance Supplement to OMB

— Page 9 of 10 —

Copyright © 2002, The Grantsmanship Center.

This article may not be reprinted, reproduced, or retransmitted in whole or in part without express written consent of The Grantsmanship Center.

<http://www.tgci.com> (800) 421-9512 [Join Our Mailing List](#)

Circular A-133, also downloadable here, is one of the best management tools you can have for grant audit and administration. Parts 1-3 and 6 are the most useful; major program compliance requirements are in Part 4. Another downloadable document, OMB Circular A-50, on audit follow-up, helps you understand what federal agencies do with audit reports and audit findings.)

- <http://www.aicpa.org> - The American Institute of Certified Public Accountants (AICPA Guidance Related to OMB Circular A-133 is posted here.)
- <http://www.gfoa.org> - Government Finance Officers Association
- <http://www.cfoc.gov> - Chief Financial Officer's Council (Single Audit Basics and Where to Get Help is posted here.)
- <http://www.gao.gov> - General Accounting Office (This site's audit page has valuable information about government-wide audit policies. If you have the number for a specific GAO report, you can download it here. Report Number GAO-02-376, March, 2002, Single Audit Survey of CFO Act Agencies, shows how agencies make use of completed single audits.)
- The most comprehensive commercial guide to the Single Audit Act and the A-133 process is the Single Audit Information Service, a subscription binder service from Thompson Publishing (www.thompson.com). The same publisher's Federal Grants Management Handbook (Sections 450-459) contains more general guidance on single audits.

Henry Flood, a contributing editor of The Grantsmanship Center Magazine, is Director of Research and Development for Drew Management Group and Governance Advisor to the Snoqualmie Indian Tribe. He can be reached by e-mail at HFlodd@worldnet.att.net.