

Preparing for a Federal Audit

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Preparing for a Federal Audit

1. Auditing standard setters
2. What is a Single Audit?
3. What auditors look for when conducting a Single Audit
 - Schedule of Expenditures of Federal Awards (SEFA)
 - Major program determination
 - Internal Controls
 - Procurement
 - Cost principles
4. Tips for Preparing for a Single Audit

Auditing Standard Setters

First Level - Foundational

Generally accepted auditing standards
(**GAAS**)

- established by the American Institute of CPAs (**AICPA**)
- Applies to audits of all types of organizations, including state and local governments

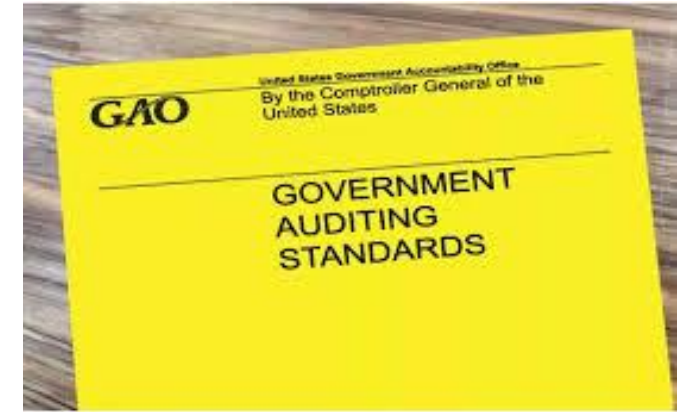


Auditing Standard Setters

Second Level – State Compliance

Generally accepted government auditing standards (**GAGAS**)

- Established by the federal Government Accountability Office (**GAO**)
- Also known as the Yellow Book
- Applies only to governments
- Incorporates (and includes all of) GAAS
- Adds a layer of compliance with state laws that have a direct and material effect on the financial statements



Source: GAO File Photo.

Auditing Standard Setters

Third Level – Federal Compliance

Single Audit

- Established by the federal Office of Management and Budget (**OMB**)
- Applies only to state and local governments receiving \$1 million in total federal awards (awards issued after 10/1/2024; before then the audit threshold was \$750,000)
- Adds a third audit layer that includes program performance, internal controls, and numerous federal requirements



Brief History of the Single Audit

- Single Audit Act of 1984 (amended in 1996)
 - Consolidates multiple individual program compliance audits into one (single) audit
- Uniform Guidance established in 2013
 - Replaced 8 separate OMB circulars with a single set of rules found in 2 CFR 200
 - OMB issues an annual Compliance Supplement
 - Latest revision became effective on October 1, 2024
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

A Single Audit

- Covers the entire organization's financial operations
- Is substantially more detailed than a GAGAS financial statement audit
- Requires a **higher level of testing** by the auditor to establish that
 1. The financial statements are presented fairly and accurately and in accordance with **federal cost principles**;
 2. The organization has an adequate **internal control structure** over financial reporting and compliance with major federal programs; and
 3. The organization is in **compliance** with government regulations and laws that apply to the specific federal funds tested.

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control over Financial Reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements or other matter noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2, Part 200 of the Uniform Guidance?

yes no

What Auditors Look for When Conducting a Single Audit

1. Financial statements and the Schedule of Expenditures of Federal Awards (**SEFA**)
 - Accuracy and completeness of reporting
 - Proper classification of federal awards
2. **Internal controls** over compliance
 - Documentation of policies and procedures
 - Proper segregation of duties
 - Compliance with **procurement, cost allowability**, and reporting requirements

What Auditors Look for When Conducting a Single Audit

3. Major program determination

- Risk assessment process to select major programs for testing
- Compliance requirements, such as allowable costs, period of performance, and reporting

4. Findings and deficiencies

- Types: material weaknesses, significant deficiencies, and compliance findings
- Consequences: reporting to federal agencies, corrective action plans, and potential funding risks

Federal Compliance Requirements

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- E. Eligibility
- F. Equipment, real property management
- G. Matching, level of effort, earmarking
- H. Period of performance
- I. Procurement, suspension, debarment
- J. Program income
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

Schedule of Expenditures of Federal Awards (SEFA) (2 CFR 200.510)

- **Auditee**, not auditor, prepares the SEFA
 - The SEFA is federal awards **spent**, not federal awards received
 - By federal agency, using Assistance Listing Number and including a total for clusters of federal programs
 - Name and identifying number of sub-recipients
 - Include notes
- **Reconcile the SEFA** to the general ledger to make sure the SEFA is accurate
 - Maintain an inventory of all federal grants – last year, plus additions, minus completions equals this year
- Provide the SEFA to the auditor early in the audit process
- Use the SEFA to help identify major programs

Federal Grantor/ Pass-Through Grantor/ Program Name	Assistance Listing	Pass-through Grant Number	Expenditures
Office of Elementary and Secondary Education			
Passed through Louisiana Department of Education			
Student Support and Academic Enrichment Program	84.424	28-24-71-40	673,034
		28-23-BSCA-40	288,656
			961,690
COVID-19--Education Stabilization Fund	84.425U	28-21-ES3I-40	612,891
	84.425W	28-21-MVAR-40	1,344
	84.425U	28-21-ESEB-40	4,053,169
	84.425U	28-21-ES3F-40	32,509,735
	84.425D	28-21-ES2I-40	1,702,038
	84.425W	28-22-HARP-40	126,817
	84.425D	28-21-ES2F-40	3,577,889
			42,583,883
Office of Special Education and Rehabilitative Services			
Passed through Louisiana Department of Education			
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)	84.027	28-24-RK-40	14,727
		28-24-B1-40	5,635,637
		N/A	411,675
COVID-19--Special Education - Grants to States (IDEA, Part B)		28-22-IA11-40	368,701
			6,430,740
Special Education - Preschool Grants (IDEA Preschool)	84.173	28-24-P1-40	127,501
COVID-19--Special Education - Preschool Grants (IDEA Preschool)		28-22-IA19-40	33,764
			161,265
Office of Career, Technical, and Adult Education			
Passed through Louisiana Department of Education			
Career and Technical Education - Basic Grants to States	84.048	28-24-02-40	195,943
Total United States Department of Education			62,041,817

Major Programs Criteria (2 CFR 200.518-519)

Determined by both **quantitative** and qualitative criteria AND requires appropriate coverage

- **Quantitative Criteria** (amount of a specific federal grant)
 - Type A are larger federal grants
 - \$1 million if total federal grant expenditures are between \$1 million and \$34 million
 - Total federal awards spent X .03 if total federal grant expenditures are between \$34 million and \$100 million
 - Type B are all other federal grants

Major Programs Criteria (2 CFR 200.518-519)

Determined by both quantitative and **qualitative** criteria AND requires appropriate coverage

- **Qualitative Criteria** (risk-based)
 - Either high or low risk for both Type A and Type B programs
 - Qualify as low risk if all 3 of these criteria are met:
 1. The program was audited as a major program in one of the last two audits; and
 2. There were no material weaknesses in internal controls; and
 3. There were no questioned costs exceeding 5% of program expenditures
 - Otherwise, the program is considered high-risk

Major Programs Criteria (2 CFR 200.518-519)

Determined by both quantitative and qualitative criteria AND requires **appropriate coverage**

- Auditors must assess the risk of both Type A programs and Type B programs (of at least 25% of the Type A audit threshold)
- At least one high-risk Type B program must be tested as a major program if no high-risk Type A programs were identified
- Auditors must ensure that they test enough programs to cover at least **40%** of total federal expenditures (**20%** for low-risk auditees)
- If the initial selection of major programs does not meet this threshold, additional programs will be selected

Major Program Sample Calculation

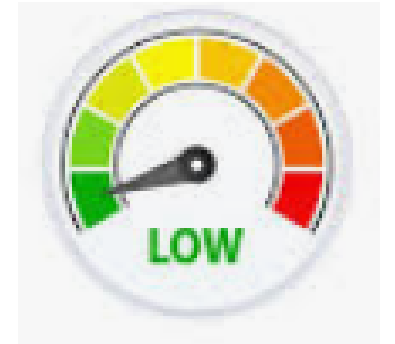
Federal Program	Expenditures	Type	Risk	Major Program?
Title I	\$3,500,000	A	Low	No
IDEA	\$2,800,000	A	High	Yes
Child Nutrition	\$1,200,000	A	Low	No
Head Start	\$900,000	B	High	Yes
Title II	\$600,000	B	Low	No
8 other federal grants	<u>\$800,000</u>	B		Not required
	\$9,800,000			

Type A threshold is \$1 million, since total federal awards are below \$34 million
 The auditor selects the two high-risk programs - one Type A and one Type B
 Coverage = 38% (((\$2.8M + \$900K)/\$9.8M)

Elevate from High-Risk to Low-Risk Auditee (2 CFR 200.520)

An auditee must meet **all of these 5 conditions for each of the preceding two years** to qualify as a low-risk auditee:

1. Single Audits were performed and submitted to the Federal Audit Clearinghouse (FAC) on time;
2. Unmodified audit opinions;
3. No material weaknesses;
4. No doubt about the auditee's ability to continue as a going concern; and
5. No Type A programs had material weaknesses, modified opinion, or questioned costs above 5%.

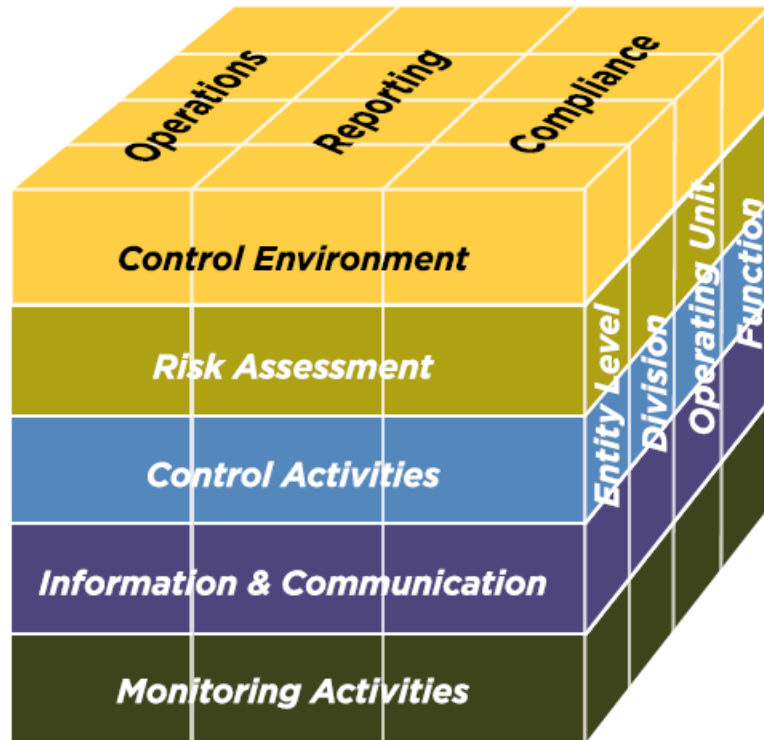


Internal Controls (2 CFR 200.303)

The recipient and subrecipient must

1. Establish, document, and maintain effective internal control over the federal award . . . that should align with the ***COSO Integrated Framework***;
2. **Comply** with the U.S. Constitution, federal laws, and federal regulations and the terms and conditions of the federal award;
3. **Evaluate and monitor** both the recipient's and subrecipient's compliance with statutes, regulations, and terms and conditions of the federal award;
4. **Promptly act** when noncompliance is identified; and
5. Take responsibility for **cybersecurity** and other measures to safeguard information.

COSO Integrated Framework



- 3 categories of objectives are across the top
- 5 essential components of internal control are down the front
- Organizational structure is across the side

Internal Control Key Points for School Districts

1. Establish and maintain internal controls
2. Document (in writing) and communicate the internal controls
3. Practice proper segregation of incompatible duties
4. Monitor and review internal controls, and adjust when necessary
5. Take corrective action to resolve weaknesses by
 - Identifying the problem and its root cause
 - Determining the appropriate actions to correct the problem
 - Establishing a timeline and persons responsible for taking the corrective actions
 - Monitoring to make sure the problem is, indeed, corrected

Crucial Uniform Guidance Internal Controls for School Districts

1. Procurement

- Competitive bidding
- Review and approve contracts

2. Payroll and time keeping

- Allocate time to federal programs properly
- Time sheets should be properly documented and approved and align with the work performed
- Payroll should be reviewed for accuracy and compliance with federal wage standards

Crucial Uniform Guidance Internal Controls for School Districts

3. Expenditure approval and documentation

- Formal review and approval process
- Maintain an audit trail and clear documentation, including itemized invoices, receipts, contracts, etc.

4. Monitoring subrecipients

- Oversee subrecipients to make sure they comply with Uniform Guidance
- Conduct risk assessments, require regular reporting, and review their financial management processes

General Procurement Standards (2 CFR 200.318)

- ✓ The procurement process should be **fair, open, and cost-effective** while minimizing the risk of fraud and waste.
- ✓ Procurement **procedures should be documented and consistent** with state and local laws and regulations. **Use the most restrictive procurement method.**
- ✓ Maintain **oversight of contractors.**
- ✓ Maintain **written standards of conduct** and conflicts of interest policies (Louisiana's Code of Governmental Ethics; no related party transactions)
- ✓ **Avoid unnecessary or duplicative items.**
- ✓ Ok to enter into state and local **intergovernmental agreements** (i.e. "piggybacking")

General Procurement Standards (2 CFR 200.318)

- ✓ The use of **excess and surplus federal property** is encouraged.
- ✓ The use of **value engineering clauses** is encouraged (analyze each contract item to ensure its essential function is provided at the overall lowest cost).
- ✓ Only **responsible contractors** may be awarded contracts paid with federal funds (check SAM.gov).
- ✓ **Maintain sufficient and detailed procurement records**, including the rationale for the procurement method, contract type selection, contractor selection, and basis for the contract price.
- ✓ **Time-and-materials type contracts** are permitted only when no other contract is suitable and there's a ceiling price.
- ✓ Settle contractual and administrative issues with the vendor.

Federal Procurement Methods (2 CFR 200.320)

1. Micro-purchase

- No competitive quotes are required if price is reasonable
- To the extent practicable, distribute purchases among qualified suppliers to prevent favoritism (but verify that does not violate state procurement laws)
- Can use procurement/purchase cards but must document transactions

2. Simplified acquisition

- Obtain price or rate quotes from at least 3 qualified sources (verbal is OK but written is preferred)
- Purchase must be cost-effective

Federal Procurement Methods (2 CFR 200.320)

3. Sealed Bids

- For construction and major purchases
- Publicly advertised, and bids should be submitted sealed
- Contract at a firm fixed price is awarded to lowest responsible and responsive bidder

4. Competitive Proposal (Request for Proposal, RFP)

- Use when sealed bids aren't practical, as when purchasing professional services
- RFP must be publicly advertised and include the evaluation factors and their weights
- Proposals are evaluated on factors other than price

Federal Procurement Methods (2 CFR 200.320)

- 5. Noncompetitive, Sole Source** is allowed under limited circumstances
- The aggregate amount is under the micro-purchase threshold
 - The procurement transaction can only be fulfilled by a single source
 - An emergency requires immediate procurement
 - The federal grantor gives written approval, or
 - After soliciting several sources, competition is determined to be inadequate

Micro-Purchase Threshold

- The point at which at least 3 (written) quotes should be obtained, but below the simplified acquisition threshold (SAT) to publicly bid.
- **The recipient is responsible for determining and documenting an appropriate micro-purchase threshold** based on
 - Internal controls,
 - An evaluation of risk, and
 - The recipient's/subrecipient's documented procurement procedures.
- The micro-purchase threshold must be authorized or not prohibited under state or federal laws or regulations.
- The federal threshold established in the Federal Acquisition Regulations is currently \$15,000 (acquisition.gov/far).

Simplified Acquisition Threshold (SAT)

- The point at which the procurement must be competitively bid and require public notice (sealed bids, RFPs).
- **The recipient or subrecipient is responsible for determining an appropriate SAT** based on
 - Internal controls,
 - An evaluation of risk, and
 - The recipient's/subrecipient's documented procurement procedures.
- The SAT must be authorized or not prohibited under state or federal laws or regulations.
- The recipient or subrecipient may establish a threshold lower than the federal threshold established in the Federal Acquisition Regulations, which is currently \$350,000 (acquisition.gov/far).

Micro-purchase

Non-competitive: direct purchase

Micro-purchase threshold

Simplified acquisition

Competitive: at least 3 quotes

Simplified acquisition threshold

Sealed Bids/Competitive Proposal

Competitive: advertise and solicit bids



Federal Procurement Pop Quiz

1. I am purchasing \$20,000 supplies using federal IDEA funds. The federal micro-purchase threshold is \$15,000 but my state's threshold for requiring three quotes is \$30,000 and my school district's purchasing policy states we follow state law. Am I required to get 3 quotes?
2. I was just told that we're going to purchase \$120,000 in professional services with our Title II funds. The amount of this purchase is between the micro-purchase threshold and the SAT threshold, which implies that at least 3 quotes should be obtained (or some sort of RFP competitive process should be followed). However, our documented purchasing procedures state we follow state law, and our state law exempts professional services from being publicly bid. Am I required to purchase these professional services through some sort of competitive process?

Use the most restrictive procurement method.

Need to Know Federal Procurement Regulations

- 2 CFR 200.213 – Vendors should not be suspended or debarred from receiving federal funds (check SAM.gov)
- 2 CFR 200.321 – Contracting with small businesses, minority businesses, women’s business enterprises, veteran-owned businesses, and labor surplus area firms
- 2 CFR 200.322 – Domestic preferences for procurements
- 2 CFR 200.323 – Procurement of recovered materials
- 2 CFR 200.324 – Use of “cost plus a percentage of cost” contracts is prohibited
- 2 CFR 200.326 – Bonding requirements
- 2 CFR 200.327 (Appendix II) – 12 required contract provisions

Cost Principles and Definitions (2 CFR 200.400-476)

- Allowed and unallowed costs
- Direct and indirect costs
- Allocating costs
- Questioned costs
- Cost sharing
- Project costs



Allowable Costs (2 CFR 200.403)

1. Be **necessary** and **reasonable** for the performance of the federal award and be **allocable**;
2. Conform to **cost principles limitations** as to types or amount of cost items;
3. Be **consistent with policies and procedures that apply to all activities**, regardless of funding, of the recipient/subrecipient;
4. Be **consistently categorized as either a direct or indirect cost** ("accorded consistent treatment");
5. Be in accordance with generally accepted accounting standards (**GAAP**);
6. **Not be included** as a cost or used to meet sharing requirements of other federal programs in the current year or a prior period; and
7. **Administrative close-out costs.**

Reasonable Costs (2 CFR 200.404)

A cost is reasonable if it does not exceed an amount that a **prudent person** would incur under the circumstances. Consideration should be given to

1. Whether the cost is **generally recognized as ordinary and necessary** for the recipient's/subrecipient's operations or performance of the program;
2. **Restraints/requirements** imposed by sound business practices; arm's length bargaining; federal, state and local laws and regulations; and terms and conditions of the grant;
3. **Market prices**;
4. Whether the individuals concerned **acted with prudence**; and
5. Whether the cost is a **deviation** from the recipient's/subrecipient's established written policies and procedures for incurring costs.

Direct and Indirect Costs (2 CFR 200.412-414)

Direct costs can be identified **specifically** with a federal award or can be directly assigned relatively easily with a high degree of accuracy

- Supplies, compensation of employees performing the program, and even higher utility compensation, cybersecurity, integrated data systems

Indirect costs are **incurred for joint purposes**, benefit more than one cost objective and aren't readily assignable to the cost objective specifically benefitted

- Building and equipment depreciation, facility operation and maintenance, general administration and general expenses, salaries of executives, managers, accountants
- The rate may be either negotiated with the grantor agency or a *de minimis* rate of up to 15% of modified total direct costs may be used

Allocating Costs (2 CFR 200.405)

Costs can be allocated to a federal award if it satisfies any of these criteria:

1. The cost is incurred specifically for the federal award;
2. The cost benefits both the federal award and other work of the recipient/subrecipient and can be reasonably allocated; or
3. The cost is necessary for the overall operation of the recipient/subrecipient and is assignable, in part, to the federal award.

A cost allocable to a particular federal award may not be charged to other federal awards. However, it is OK to shift costs that are allowable under multiple federal awards.

Costs should be allocated based on proportion of benefit.

Questioned Costs (2 CFR 200.1)

An amount expended or received from a federal award that, in the auditor's judgment

1. Is noncompliant or suspected noncompliant with federal laws, regulations, or the terms and conditions of the federal award;
2. At the time of the audit lacked adequate documentation to support compliance; or
3. Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances.



Known and Likely Questioned Costs

- **Known questioned cost** means a questioned cost specifically identified by the auditor. Known questioned costs are a subset of *likely* questioned costs.
- **Likely questioned costs** means the auditor's best estimate of *total* questioned costs (i.e. includes both known and estimated unknown questioned costs). Likely questioned costs are developed by extrapolating from audit evidence obtained.
- In evaluating the effect of questioned costs on the **opinion of compliance**, the auditor considers the likely questioned costs (i.e. known and estimated unknown).
- Not all questioned costs are **improper payments**.

Cost Sharing (2 CFR 200.306)

Cost sharing is the portion of project costs not paid by federal funds or contributions, including

- Cash,
- Third-party in-kind contributions,
- Funds committed by the recipient/subrecipient or third parties,
- “Matching,” which refers to levels of cost sharing, and
- Unrecovered indirect costs, when approved by the federal agency.



Cost Sharing Funds Must Be

1. **Verifiable** in the recipient's/subrecipient's records;
2. Are **not included** as contributions for any other federal award;
3. Are **necessary and reasonable** for achieving the objectives of the federal award;
4. Are **allowable**;
5. Are **not paid by the federal government** under another federal award, with narrow exceptions;
6. Are in the **budget** approved by the federal grantor (when required); and
7. **Conform** to other cost sharing provisions, including proper valuation.



Cost Sharing Cautions

- The value of donated property must be the lower of book value of the asset (cost less accumulated depreciation) or current fair market value.
- Volunteer services must be necessary to perform the federal program and must be at rates paid for similar work or in the labor market.
- When a third-party organization furnishes the services of an employee, the services must be valued at the employee's regular rate of pay (plus fringe benefits, when allowed).
- The value of donated equipment and supplies must not exceed their fair market value at the time of donation.
- The value of loaned equipment and space may not exceed its fair rental value.

Project Cost

Total allowable costs
All cost sharing
+ Third-party contributions
= Project cost





Tips for Preparing for a Single Audit

- Know (inventory) your federal awards to record all federal awards on your SEFA.
- Strengthen internal controls to comply with the *COSO Integrated Framework*.
- Ensure adequate recordkeeping, documentation, and accounting and keep records accessible for at least 3 years after grant closeout.
- Follow the most restrictive procurement method.
- Understand allowable costs, follow cost principles, and ensure expenses are necessary, reasonable, and properly allocated.



Tips for Preparing for a Single Audit

- Monitor subrecipients when applicable.
- Conduct a pre-audit review to identify potential issues.
- Reconcile financial reports to the general ledger frequently, especially when submitting expense reimbursement requests, preparing budgets, and preparing the SEFA.
- Promptly resolve audit findings and implement corrective actions plans.
- Work with your auditor to ensure that the Single Audit is submitted to the Federal Audit Clearinghouse on time (the earlier of 30 calendar days after receiving the auditor's report or 9 months after the end of the audit period).
- Make it your goal to be a low-risk auditee.

Thank you!



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