

Preparing for an Audit

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Federal Grants

- ▶ Awarded by federal government to non-federal entities such as:
 - ▶ states, local governments, not-for-profits, etc.
- ▶ Direct vs. Pass-Through Awards
 - ▶ Direct: Awarded from one of 15 federal government departments
 - ▶ Pass-Through: Awarded from a federal government department but passed through another entity (i.e., State of North Dakota)
- ▶ Both instances are subject to Single Audit Act requirements

What is the Single Audit Act?

- ▶ Audits of federal awards to non-federal entities
- ▶ Provides confidence in federal spending
- ▶ Improves the effectiveness of audits
- ▶ Performed by auditors of non-federal entities
- ▶ Federal government establishes guidelines and policy including:
 - ▶ Audit requirements and cost principles
 - ▶ Uniform Guidance aka 2 CFR 200 (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>)

Who Needs a Single Audit?

Any non-federal entity (i.e., cities) that meets ALL the following criteria:

- ▶ Awarded federal grants DIRECT or via PASS-THROUGH
- ▶ Expenditures incurred in a fiscal year
- ▶ All federal expenditures exceed or equal to \$750,000 in a fiscal year
 - ▶ Must include all federal awards / grant expenditures

Single Audit Requirements

- ▶ Financial Requirements
 - ▶ Accrual or Cash Basis of Accounting (must be consistent)
 - ▶ Grants Management
- ▶ Reporting Requirements
 - ▶ Schedule of Expenditures of Federal Awards (SEFA)
- ▶ Compliance Requirements
 - ▶ Comply with Uniform Guidance (2 CFR 200)
 - ▶ Comply with other specific grant requirements
- ▶ Internal Controls over Compliance
 - ▶ Key controls
 - ▶ Policies

Single Audit Financial Requirements

- ▶ Management of grants
 - ▶ Manage purchases financed by federal grants
 - ▶ Submit requests for reimbursement timely (if necessary)
 - ▶ ARPA Expenditures
 - ▶ Manage the expenditures in detail
 - ▶ Accrual or cash accounting basis (must be consistent in financial statements)
 - ▶ Record the expenditures in the correct period at year-end
 - ▶ ARPA Revenues
 - ▶ Recognize revenue for the amount that is spent in a fiscal year
 - ▶ Unspent remainder should be recorded as an unearned revenue (liability)

Single Audit Reporting Requirements

- ▶ Schedule of Expenditures of Federal Awards (SEFA)
 - ▶ Required to be prepared by non-federal entity
 - ▶ Used by auditors to determine single audits
 - ▶ Report that shows ALL federal awards by CFDA #, title, and pass-through (if any)
 - ▶ ARPA CFDA # or Assistance Listings Number: **21.027**
 - ▶ Information from Grant Award Letters / Agreements
 - ▶ ACTUAL expenditures
 - ▶ Accrual Basis or Cash Basis (must be consistent with financial statements)
 - ▶ Must reconcile to the accounting records
 - ▶ Information reported to federal government via Federal Audit Clearinghouse

Schedule of Expenditures of Federal Awards (SEFA)

City of Bismarck
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Name of awarding agency

Name of pass-through entity

CFDA #

Expenditure of federal grant in 2020

Pass-through grant #

Total Exceeds \$750K

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipients
<u>Department of Interior</u>				
Passed Through North Dakota Historical Society Historic Preservation Fund Grants-In-Aid	15.904	P20AF00039	11,984	-
Total Department of Interior			11,984	-
<u>Department of Labor</u>				
Passed Through North Dakota Job Service Unemployment insurance	17.225	Unknown	54,051	-
Total Department of Labor			54,051	-
<u>Department of Treasury</u>				
Passed Through North Dakota Job Service Coronavirus Relief Fund	21.019	SLT0013(79)	53,726	-
Passed Through North Dakota Office of Management and Budget Coronavirus Relief Fund	21.019	SLT0013(79)	9,487,806	-
Passed Through North Dakota Office of Management and Budget Coronavirus Relief Fund	21.019	SLT0013(79)	2,592,583	-
Total Department of Treasury			12,134,115	-

Single Audit Compliance Requirements

- ▶ Compliance of federal grant expenditures with:
 - ▶ **Allowable Activities / Allowable Costs**
 - ▶ **Cash Management**
 - ▶ **Procurement**
 - ▶ **Suspension and Debarment**
 - ▶ **Reporting Requirements**
 - ▶ Davis-Bacon Act (fair wages), if applicable
 - ▶ Buy American Act, if applicable
 - ▶ Other Requirements

Single Audit Compliance Requirements

- ▶ Allowable Activities / Allowable Costs (ARPA)
 - ▶ Support public health expenditures (COVID-19 related expenditures)
 - ▶ Address negative economic impacts caused by the public health emergency
 - ▶ Provide premium pay for essential workers
 - ▶ Invest in water, sewer, and broadband infrastructure
 - ▶ **Replace lost public sector revenue**
 - ▶ Perform revenue loss calculation (use GFOA calculation)
 - ▶ Spending restricted but broad

<https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf>

Single Audit Compliance Requirements

- ▶ Cash Management (ARPA)
 - ▶ Record the revenue in the fiscal year incurred
 - ▶ Defer the remainder until expenditures incurred

Single Audit Compliance Requirements

▶ Suspension and Debarment

- ▶ Purpose: To verify that vendor is not suspended or debarred by federal government
- ▶ PRIOR TO CONTRACT EXECUTION / APPROVAL / SIGNATURE
- ▶ Verify (www.sam.gov)
 - ▶ Enter name of vendor and review results
 - ▶ Collecting a Suspension or Debarment Certification from Vendor (signed by vendor)
 - ▶ Adding a clause or condition to the covered transaction with vendor agreement

- ▶ <https://www.gsa.gov/policy-regulations/policy/acquisition-policy/office-of-acquisition-policy/gsa-acq-policy-integrity-workforce/suspension-debarment-suspension-debarment>

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

Single Audit Compliance Requirements

- ▶ Procurement
 - ▶ Purpose: To obtain best possible product / service and cost using taxpayer dollars
 - ▶ Do you have an existing procurement policy?
 - ▶ REQUIRED to have documented procurement procedures consistent with federal and state laws
 - ▶ PRIOR TO CONTRACT EXECUTION / SIGNATURES
 - ▶ Oversight over work of contractors, conflict of interest, etc.
 - ▶ Competition
 - ▶ Follow federal procurement thresholds:
 - ▶ Micro-purchases less than \$50,000 or internal policy
 - ▶ Formal procurement greater than or equal to \$50,000 (formal bids)

Single Audit Compliance Requirements

- ▶ Reporting Requirements (ARPA)
 - ▶ Purpose: Provide status updates to federal government on spending and uses
 - ▶ Submit one initial interim report
 - ▶ Quarterly or Annual Project and Expenditure Reports
 - ▶ Recovery Plan Report

Single Audit Internal Controls over Compliance

- ▶ Purpose: Compliance requirements are only as good as their internal controls
- ▶ Internal Control (COSO) Framework
- ▶ Design and Effectiveness
 - ▶ Control Environment
 - ▶ Risk Assessment
 - ▶ Control Activities
 - ▶ Information and Communication
 - ▶ Monitoring
- ▶ **For each compliance requirement**
- ▶ Examples include:
 - ▶ Policies
 - ▶ Segregation of Duties
 - ▶ Reviews and approvals



Single Audit Internal Controls over Compliance

- ▶ **Apply to each compliance requirement**
- ▶ **For example:**
 - ▶ **Allowable Activities**
 - ▶ How does the organization implement compliance requirements and internal controls?
 - ▶ How did the organization evaluate the risk of not complying with allowable activities?
 - ▶ What is the process to verify compliance with requirements?
 - ▶ How is this internal control communicated?
 - ▶ Who reviews to make sure the activity is allowable?
- ▶ **Examples include:**
 - ▶ Policies (Grants, Procurement, Accounts Payable, etc.)
 - ▶ Segregation of Duties
 - ▶ Reviews and approvals

Single Audit Procedures (Auditors)

1. Obtain SEFA from City / Township
2. Determine major audit programs based on 2 CFR 200
3. Obtain the latest compliance supplement from federal OMB (public information)
 1. <https://www.aicpa.org/interestareas/governmentauditquality/resources/singleaudit/2020-omb-compliance-supplement.html>
4. Review grant agreement / award and compliance requirements for program being tested
5. Obtain listing of expenditures related to program in fiscal year(s) being tested
6. Select sample and perform testing procedures based on:
 1. Compliance supplement and grant requirements
 2. Internal controls over compliance
7. Results

Single Audit Opinions (Results)

1. Opine on compliance with Internal Control over Financial Reporting and Compliance
2. Opine on compliance over each major federal program, internal control over compliance, and SEFA (as required by Uniform Guidance)
3. Determine Low-Risk or High-Risk designation (effect on number of federal programs audited)
4. Findings (if any)

Single Audit Findings

- ▶ Two types of findings:
 - ▶ Significant Deficiency - Minor mistake or error (Not good)
 - ▶ Material Weakness - Significant mistake, error, omission, or failure to comply (Bad!)
- ▶ Consequences:
 - ▶ **Questioned Costs**
 - ▶ **Paying back funding to the federal government**
 - ▶ Correction Plan (two years)
 - ▶ No similar errors in two years
 - ▶ Impact on future federal awards / grants

Single Audit Findings

Questioned Costs (Worst!)

- ▶ Pay back grant to federal government (material weakness)
- ▶ Impact on cities and townships (ARPA):
 - ▶ **Ineligible spending**
 - ▶ **Biggest issue: Miscalculation of revenue loss which results in ineligible spending**
 - ▶ May have to use reserves or other funding to cover the cost of ineligible projects
 - ▶ Pay back federal government for ineligible costs
 - ▶ Loss of ARPA grants
 - ▶ Finding: Material weakness
 - ▶ Negative Public Perception

Takeaways for Preparing for Single Audit

- ▶ Make sure the spending is on allowable activities and costs
- ▶ Revenue loss calculation needs to be accurate based on audited financial statements
- ▶ Establish and enforce procurement and financial policies
- ▶ Review to make sure internal controls exist over accounts payable and cash and investments
- ▶ Read and comply with ARPA requirements and Q&As, and Uniform Guidance
- ▶ Establish internal controls over compliance requirements to make sure they are met
- ▶ Document evidence of any reviews or approvals
- ▶ Make sure accounting records are accurate using **modified accrual basis** of accounting
- ▶ Prepare SEFA based on Uniform Guidance requirements
 - ▶ Find examples online such as City of Bismarck (<https://www.bismarcknd.gov/DocumentCenter/View/38155/2020-Federal-Awards-Report->)
- ▶ If already in spending mode, then go back and review spending and controls

Questions?

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