

## Discussion of Single Audit in North Carolina

G.S. 159-34 states that each unit of local government and public authority must have its accounts audited as soon as possible after the close of each fiscal year. When specified by the Secretary of the Local Government Commission (LGC), the audit must evaluate the performance of a unit of local government or public authority with regard to compliance with all applicable federal and State agency regulations. In accordance with this statute and regulations set by the Secretary of the Local Government Commission, local governments and public authorities are subject to the following audit requirements:

All local governments and public authorities subject to G.S. 159, The Local Government Budget and Fiscal Control Act, must have an audit performed in accordance with generally accepted auditing standards (GAAS).

Local governments and public authorities that expend \$100,000 or more in combined federal or State financial assistance must have an audit performed in accordance with Government Auditing Standards (GAGAS).

In accordance with federal requirements, beginning in fiscal years ending after December 15, 2015, local governments and public authorities that expend \$750,000 or more in federal financial assistance must have a single audit performed. Local governments and public authorities with fiscal years ending June 30, 2016 or later that have expended \$500,000 or more in State financial assistance must have a single audit performed in accordance with the State Single Audit Implementation Act. <sup>1</sup>

### **Additional State Requirement to Audit Certain Federal Programs as Major Effective for Years Ending on or after June 30, 2003**

In order to satisfy federal requirements on testing eligibility for programs determined to be major by the State of North Carolina, the N.C. Office of the State Auditor identifies programs that are to be audited as major programs for certain counties and area public health authorities in the state. The Local Government Commission will notify the local government and its auditor in April of each year of the additional programs.

### **Compliance Testing and Internal Control Responsibilities for Audits Performed in Accordance With Generally Accepted Auditing Standards**

GAAS require that the auditor design the audit to provide reasonable assurance that the financial statements as a whole are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts and disclosures in the financial statements. These requirements are described in AU-C §250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (AICPA, Professional Standards: *Clarity Statements on Auditing Standards*). According to AU-C §240, *Consideration of Fraud in the Financial Statements*, misstatements in the financial statements can arise from either fraud or error. For a GAAS audit, the auditor is also responsible for considering provisions of contracts and grant agreements and how they impact the audit. This would include performing specific procedures to identify potential noncompliance that has a material indirect effect on the financial statements (AU-C §250.06b).

Noncompliance as defined by AU-C §250.11 is acts of omission or commission by the entity, either intentionally or unintentionally, which are contrary to the prevailing laws and regulations. The auditor

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<sup>1</sup> Changes reflect requirement of the U.S. Office of Management and Budget Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule* (Uniform Guidance) that supersedes the audit requirements of OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organization*

should communicate to “Those Charged With Governance,”<sup>2</sup> the governing board and those who are involved with management, consequential matters involving noncompliance with laws, regulations, contracts, and grant agreements that come to the auditor’s attention during the course of the audit (AU-C §250.21).

If the matters are considered material and intentional, then the communication should be as soon as practical (AU-C §250.22). For a GAAS audit, if the auditor feels that these matters of noncompliance should be reported in writing, they may be reported in a management letter or reported in a report in accordance with AU-C §260 *The Auditor’s Communication With Those Charged With Governance*<sup>3</sup>. The auditor should use professional judgment to determine if the matters of noncompliance occurred due to deficiencies in internal control. Matters of noncompliance should be communicated to management and, if necessary, the governing board. For GAAS audits, if control deficiencies are at the level of significant deficiencies or material weaknesses, then they should be reported in a report in accordance with AU-C §265 *Communicating Deficiencies in Internal Control*.<sup>4</sup> For deficiencies not at the level of significant deficiencies or those that are inconsequential, if the auditor believes these matters should be communicated in writing, then a management letter or the AU-C 265 report may be used.

In addition to the requirements under GAAS, the Governmental Accounting Standards Board (GASB) requires governments to disclose certain violations of compliance requirements in the notes to the financial statements. National Council on Governmental Accounting (NCGA) Interpretation No. 6 *Notes to the Financial Statement Disclosures*, paragraph 4, states that the notes to the financial statements should disclose material violations of financial-related legal and contractual provisions. Auditors are required to know the general statutes and other legal and contractual provisions that apply to local governments and public authorities, including Article 3 of G.S. §159, The Local Government Budget and Fiscal Control Act and Article 31 of G.S. §115C, The School Budget and Fiscal Control Act.

GASB standards expand on that requirement by requiring disclosure concerning noncompliance with specific related legal and contractual provisions. For example, significant violations during the reporting period of legal or contractual provisions for deposits and investments are required to be disclosed in accordance to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchasing Agreements), and Reverse Repurchase Agreements*, paragraph 66. Significant violations of finance-related legal or contractual provisions required that the notes disclose both the nature of the violation and the actions taken during the year or subsequent to year-end to address the violation in accordance with GASB Statement No. 38 *Certain Financial Statement Note Disclosures*, paragraph 9 and 45.

### **Audits Performed Under the Yellow Book**

Financial audits under the Generally Accepted *Governmental Accounting Standards* (GAGAS), also

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<sup>2</sup> AU-C §260 *The Auditor’s Communication With Those Charged With Governance* define those charged with governance responsible for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. Management is defined as person(s) responsible for the conduct of the entity’s operations. Auditors should use professional judgment in determining those charged with governance. This document will reference those charged with governance as the governing board and management, which are managers of the government including the finance officers.

<sup>3</sup> AU-C §260 report, formerly referred to as SAS No. 114 before the clarity standards, require the auditor to communicate significant findings or issues from the audit. Other items required to be communicated to those charged with governance are found in the exhibit to AU-C §260.

<sup>4</sup> AU-C §265 *Communicating Deficiencies in Internal Control*, formerly referred to as SAS No. 115 before the clarity standards, define deficiencies in internal control, significant deficiencies, and material weaknesses that are to be reported as findings in audits performed under Yellow Book as well. Examples of circumstances that may be deficiencies, significant deficiencies, or material weakness as well as an illustrative example of a report are located in Appendix and Exhibit I think you need to give an Appendix and Exhibit number, otherwise, rephrase – “..in the appendix and exhibit ..” of AU-C §265.

referred to as Yellow Book Standards, incorporate GAAS, but add requirements that extend beyond GAAS. The U.S. Government Accountability Office (GAO) has revised the Standards for GAGAS in the December 2011 Revision. **Auditors performing an audit under the GAGAS standards should obtain a copy of GAO's *Governmental Auditing Standards, December 2011 Revision*, from the U.S. Government Accountability Office, and become familiar with those standards. The GAO website is [www.gao.gov](http://www.gao.gov).**

The Yellow Book requires auditors, including CPAs and non-CPAs, responsible for planning, directing, or performing audit procedures, or reporting on Yellow Book audits to complete every 2 years, at least 24 hours of continuing professional education (CPE) that directly relates to governmental auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on Yellow Book audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to Yellow Book audits should complete an additional 56 hours of CPE for a total of 80 hours of CPE in every two-year period. The additional 56 hours should be CPE that, in the auditor's professional judgment, enhances the auditor's professional proficiency to perform audits. The auditor is required to complete at least 20 hours of CPE in each year of the two-year period.

The Yellow Book also requires that external peer reviews be completed at least once every three years and be provided to the parties contracting for the audit. Since the Local Government Commission is a party to all local government contracts in North Carolina, a copy of this document must be provided to our office as well as to the local government.

The 2011 revisions of the Yellow Book introduce a Conceptual Framework for Independence that auditors use to identify, evaluate, and apply safeguards to address threats to independence. Before the auditor agrees to provide a nonaudit service to a local government or public authority, the auditor must determine if providing such a service would create a threat to independence either by itself or in the aggregate with other nonaudit services provided. Potential threats to independence are listed and defined in the Yellow Book (refer to paragraph 3.14) and include categories such as self-interest, self-review, bias, familiarity, undue influence, management participation, and structural. Threats do not necessarily impair independence. After an evaluation by the auditor of how significant the threat, the auditor should apply safeguards as necessary to eliminate the threat or threats or reduce them to an acceptable level. In some cases multiple safeguards may be necessary to address a threat.

Examples of safeguards given in the Yellow Book (paragraph 3.17) include consulting an independent third party, involving another audit organization to perform part of the audit, having a professional staff member who was not part of the audit team review the work performed, and removing an individual from an audit team when that individual poses a threat to independence. Also, safeguards can be applied from the entity that is being audited (paragraph 3.19).

Another potential threat to independence would be lack of management participation by the audited entity to the nonaudit service being performed by the auditor. In order to safeguard this lack of management participation threat, the auditor should determine if the audited entity has designated an individual who possesses suitable skills, knowledge, or experience and that the individual understands the services to be performed sufficiently to oversee them. The auditor must document consideration of management's ability to effectively oversee nonaudit services to be performed. The auditor should exercise professional judgment to determine whether an activity performed is a management responsibility. Also, the activity depends on the facts and circumstances. Examples of activities that are considered management responsibilities are listed in the Yellow Book standards (paragraph) 3.36 and

include setting policies and strategic direction for the audited entity, having custody of assets, accepting responsibility for the designing, implementing, or maintaining internal control. Activities such as financial statement preparation, cash to accrual conversions, and reconciliations are considered nonaudit services under the Yellow Book and should be evaluated by the auditor using the conceptual framework.

The Yellow Book states that auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits. Auditors should inquire of the audited entity's management to identify previous financial audits, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current objectives.

In addition to the AICPA requirements concerning fraud and noncompliance with provisions of laws and regulations, for Yellow Book audits, the auditor should extend the AICPA's requirements pertaining to the auditor's responsibilities for laws and regulations to also apply to considerations of compliance with provisions of contracts or grant agreements. The auditor is not required to detect abuse in the financial statements since abuse is subjective; however, if as part of the Yellow Book audit, auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements or other financial information that is significant to the objectives, auditors should apply audit procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

Before the audit report is issued, the auditor should document evidence of supervisory review of the work performed that supports findings, conclusions, and recommendations contained in the audit report. The auditor should document any departures from the Yellow Book requirements and the impact on the audit and on the auditor's conclusions when the audit is not in compliance with applicable Yellow Book requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. This applies to departures from the unconditional and presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirements.

The auditor should communicate pertinent information to those contracting for or requesting the audit such as oversight entities and granting agencies, including pass-through entities. This communication, as well as any decisions reached as a result as part of the overall audit strategy, should be documented. When the auditor complied with all applicable Yellow Book requirements, audit reports must state that the audit was performed in accordance with *Government Auditing Standards*. The Yellow Book also requires the report on internal controls to include the scope of the auditor's testing of internal controls over financial reporting, of compliance with provisions of laws, regulations, contracts, or grant agreements, and a statement as to whether or not the tests performed provide sufficient and appropriate evidence to support an opinion on the effectiveness of internal controls.

The auditor should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, 1) the significant deficiencies and material weaknesses in internal control, 2) all instances of fraud and noncompliance and any other instances warranting the attention of management and/or the governing board, 3) noncompliance with provisions of the contracts or grant agreements that have a material effect on the audit, and 4) abuse that has a material effect on the audit. The GAGAS report should include relevant information about fraud, noncompliance with provisions of laws or regulations material to the financial statements, and abuse that is quantitatively or

qualitatively material. If these instances of noncompliance are less than material, but warrant the attention of the board and/or management, this should be communicated in writing. The auditor may consult with authorities or legal counsel about whether such reporting would compromise investigation or legal proceedings and may limit public reporting to matters that would not compromise those proceedings.

When presenting findings for a Yellow Book financial audit, the auditor should develop the elements of the finding to the extent necessary, including findings related to deficiencies from the previous year that have not been remediated. When findings are identified, the auditor should plan and perform procedures to develop the elements of findings that are relevant and necessary to achieve audit objectives. Elements of the finding include criteria, condition, cause, and effect or potential effect. The elements, defined in the Yellow Book (par. 4.11 through 4.14), assist management or oversight officials of the audited entity in understanding the need for taking correction action. The auditor should include a recommendation for corrective action and should obtain the views of responsible officials of the audited entity (management response) concerning the findings, conclusions, and recommendation, as well as planned corrective action.

Due to the objectives and public accountability of Yellow Book audits, there are additional considerations related to materiality and early communication of deficiencies. The auditor may find it appropriate to use a lower materiality level compared with the materiality of non-Yellow Book audits because of public accountability of governmental entities and entities receiving government funds. Also, in determining materiality levels, the auditor may consider various legal and regulatory requirements and the visibility and sensitivity of government programs. For some matters, early communication of deficiencies to appropriate officials may be important because of the relative significance and urgency for corrective follow-up action.

### Single Audits

U. S. Office of Management and Budget (OMB) has issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Final Rule* (Uniform Guidance) that supersedes the audit requirements of OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*<sup>5</sup>. The Uniform Guidance audit requirements are located in Subpart F of the Uniform Guidance and are effective for audits with years ending after December 26, 2015<sup>6</sup> and are part of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200.

Appendix XI to Part 200 of the Uniform Guidance is the Compliance Supplement which provides auditors with guidance in performing the required audits of federal and State financial award programs. This is issued by OMB. In addition, in accordance with G.S. §159-34(c), the Local Government Commission compiles and issues updates to the State Compliance Supplement which is required to be used by the auditors of local governments, and nonprofits that receive State awards. **The auditor will be unable to adequately perform single audits without becoming familiar with these documents.**

A copy of the OMB documents can be obtained from the OMB home page at <http://www.whitehouse.gov/omb>. The State Compliance Supplements can be obtained at the State Treasurer's Single Audit Resources web site [www.nctreasurer.com](http://www.nctreasurer.com); select Local Fiscal Management, Single Audits, and Compliance Supplement. There is a link to OMB. You may call the LGC staff at (919) 814-4299.

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<sup>5</sup> *Federal Register* Vol. 78 No. 248 December 26, 2013, Part III Office of Management and Budget

<sup>6</sup> Uniform Guidance §200.103 (c): Audit requirements under Subpart F are authorized under the Single Audit Act Amendments of 1996.

## Sections of the Uniform Guidance that Apply to State Awards

In accordance with G.S. 159-34, the State Single Audit Implementation Act, the Secretary of the Local Government Commission has determined that the following sections of Uniform Guidance apply to the audit of State awards:

<u>Section</u>	
200.000	Acronyms, as applicable
200.Subpart A	Definitions, as applicable
200.502	Basis for determining awards expended
200.330	Subrecipient and contractor (vendor) determinations
200.503(a)(b)(c)	Relation to other audit requirements
200.505	Sanctions
200.508	Auditee responsibilities
200.509	Auditor selection
200-510	Financial statements
200-511	Audit findings follow-up
200-513	Awarding agency responsibilities, pass-through entity responsibilities
200-521(a)(c)(d)(e)	Management decision
200.514	Scope of audit
200.515	Audit reporting
200.516	Audit findings
200.517	Audit Documentation
200.519	Criteria for program risk

### **Basis for Determining Federal and State Awards Expended**

Section 502 of the Uniform Guidance discusses the basis for determining awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the local government or public authority to comply with federal and State statutes, regulations, and the terms and conditions of federal and State awards, such as expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the local government or public authority to an interest subsidy; and, the period when insurance is in force.

New loan and loan guarantees (loans) - Since the federal and/or State government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of federal or State awards expended under loan programs:

- (1) Value of new loans made or received during the fiscal year; plus
- (2) Balance of loans from previous years for which the federal and/or State government imposes continuing compliance requirements; plus
- (3) Any interest subsidy, cash, or administrative cost allowance received.

Prior loan and loan guarantees (loans) - Loans, the proceeds of which were received and expended in prior years, are not considered federal or State awards expended under Uniform Guidance when the

federal and State statutes, regulations, and the terms and conditions of federal and State awards pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

US Environmental Protection Agency has determined that [Clean Water State Revolving Funds \(CWSRFs\) \(66.458\)](#) and [Drinking Water State Revolving Fund \(DWSRF\) \(66.468\)](#) amounts are awarded by EPA to States as grants. The States then makes subawards in the form of loans to its subrecipients. [Therefore, in determining the amount of Federal funds expended to be reported on the Schedule of Expenditures of Federal Awards \(SEFA\), subrecipients receiving CWSRF loans should include project expenditures incurred under these loans during the audit period as provided in 2 CFR section 200.502\(a\).](#) These are subawards—not direct Federal loans—and, therefore, neither 2 CFR sections 200.502(b) or (d) apply when calculating the amount of Federal funds expended.

EPA also states that it also is important to appropriately identify these CWSRF loans as subawards because of the impact on which Federal agency is the cognizant or oversight agency. When completing the SF-SAC, the subrecipient should indicate that a CWSRF loan received from the State is not a direct award by showing an “N” in Part III, Item 6(h).

Endowment funds - The cumulative balance of federal and/or State awards for endowment funds, which are restricted by the federal or State government, are considered awards expended in each year in which the funds are still restricted.

Free rent - Free rent received by itself is not considered a federal or State award expended. However, free rent received as part of an award to carry out a federal or State program must be included in determining federal or State awards expended and is subject to single audit requirements.

Valuing non-cash assistance - Federal or State non-cash assistance, such as free rent, food commodities, donated property, or donated surplus property, must be valued at fair market value at the time of receipt or the assessed value provided by the federal or State agency.

Since counties and special districts determine eligibility for benefit payments such as Medicaid, Temporary Assistance to Needy Families/Work First, Foster Care - Title IV-E, State Children's Insurance Program/NC Health Choice and Special Supplemental Nutrition Program for Women Infants and Children, these payments made by the State to recipients meet the definition of financial assistance to the county or special district that makes the eligibility determination. These benefit payments will be presented on the SEFSA, and will be included in each county and special district's determination of major programs using the criteria in the Uniform Guidance.

Medicare payments for providing patient care services to Medicare eligible individuals to a non-federal entity, such as a hospital, district health, or mental health authority are not considered federal awards expended under OMB Uniform Guidance Subpart F. Likewise, Medicaid payments to a subrecipient, such as a hospital, district health, or mental health authority for providing patient care services to Medicaid eligible individuals are not considered federal or State awards expended by the non-federal entity that provided the services. As explained in the previous paragraph, counties would include Medicaid payments as federal and State awards expended since they are responsible for determining eligibility.

## **Cluster of Programs**

“Cluster of programs” means a grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters. The only type of cluster of programs that is applicable to units of government and public authorities subject to G.S. 159.34 are other clusters. Other clusters are defined by the OMB in the Compliance Supplement or are designated by a state for federal awards that meet the definition of a cluster of programs that the state provides to its subrecipients. When designating a group of programs as other clusters, a state must identify the federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster. A cluster of programs must be considered as one program for determining major programs.

As with the other financial statements, it is the unit of local government or public authority’s responsibility to prepare the SEFSA, including properly presenting a cluster(s) of programs on the schedule, if applicable. For federal and State programs included in a cluster of programs, the preparing unit should include the individual federal and State programs within a cluster of programs. If a cluster of programs is not properly listed on the SEFSA, it is difficult to determine whether a program should be audited as a major program. It is the auditor’s responsibility to give an opinion on the SEFSAs. It is also the auditor’s responsibility to properly determine major programs. If the sum of expenditures of State awards for a cluster of programs totals \$500,000, then every program within that cluster must be audited as a major program once in a three-year period. Likewise, the sum of expenditures of federal awards for every program within the cluster determines whether that cluster is a Type A program.

Presentation of Federal Cluster of Programs on the SEFSA: The State of North Carolina’s cognizant agency, U. S. Department of Health and Human Services, and the AICPA have recommended that the programs clustered by federal agencies be separated from the additional programs added to the cluster by State agencies when reporting the cluster of programs on the SEFSAs.. A footnote to the SEFSA identifying the State cluster should be included. Programs that have been clustered by federal agencies cannot be “unclustered” by State agencies; however, State agencies may add additional federal programs and/or State programs. For proper presentation of a cluster of programs, refer to Carolina County Subsidized Child Care, page 35-E-5.5.

### **Confirmation Reports from State Agencies**

The LGC office receives confirmation reports from State Agencies that provide financial assistance. Agencies that provide reports to the LGC are the NC Departments of Transportation, Health and Human Services, and Environmental Quality. These reports can be found at [www.nctreasurer.com](http://www.nctreasurer.com). Under Divisions, select Local Fiscal Management, select Single Audit, and select NC DEQ, DHHS, or DOT Financial Assistance.

Report from NCDOT: The Grant Master List shows the payments to local governments from NC DOT.

Reports from DHHS: The DHHS Controller’s Office generates various confirmation reports and related Keys to Account Codes (when required), all of which may be accessed at the webpage referenced in the previous paragraph. Also at the webpage are spreadsheets that provide assistance in presenting the (SEFSA) for Subsidized Childcare, Mental Health, Developmental Disabilities, Substance Abuse Service Programs, and Public Health Programs. Included are instructions, a spreadsheet for data entry, and a spreadsheet that displays the proper presentation. Users may need to make modifications for a particular unit of government.

### **Subrecipient and Contractor Determinations**

Section 330 of the Uniform Guidance discusses subrecipient and contractor determinations. An auditee may be a recipient, a subrecipient, or a contractor. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. Federal and State awards expended as a recipient or a subrecipient would be subject to single audit. The payments received for goods or services provided by a contractor would not be considered federal or State awards. The following guidance should be considered in determining whether payments constitute a federal or State award or a payment for goods and services.

Disbursements are considered a federal or State award received by a subrecipient when the organization:

- (1) Determines who is eligible to receive what federal or State financial assistance;
- (2) Has its performance measured against whether the objectives of the federal or State program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable federal or State program compliance requirements; and
- (5) **In accordance with its agreement**, uses the federal or State funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Payments are made to a contractor if the recipient:

- (1) Provides the goods and services within normal business operations;
- (2) Provides similar goods or services to many different purchasers;
- (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the federal or State program; and
- (5) Is not subject to compliance requirements of the federal or State program as a result of the agreement, though similar requirements may apply for other reasons.

Use of judgment in making determination: In determining whether an agreement between a pass-through entity and another non-federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.

### **Relation to Other Audit Requirements**

Section 503 of OMB's Uniform Guidance discusses the relationship between a single audit and other audits. A single audit must be in lieu of any financial audit required under individual federal or State awards which a non-federal entity is required to undergo under any other federal statute or regulation. To the extent this audit meets a federal or State agency's needs to carry out its responsibilities under federal statute or regulation, it must rely upon and use such audits.

A Federal agency, Inspector General, GAO, or State agency may conduct or arrange for additional audits which are necessary to carry out its responsibilities under Federal or State statute or regulation. The provisions of Subpart F of the Uniform Guidance do not authorize any unit of government to place constraints on, in any manner, such Federal or State agency carrying out or arranging for such additional audits; however, the Federal or State agency must plan such audits to not be duplicative of other audits of Federal or State awards. Prior to commencing such an audit, the Federal or State agency must review the Federal Audit Clearinghouse for recent audits submitted by the unit of government, and to the extent that such audits meet a Federal or State agency's needs, the Federal or State agency must rely upon and use such audits. Any additional audits must be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed, by other auditors.

The provisions Subpart F of the Uniform Guidance do not limit the authority of Federal or State agencies to conduct, or arrange for the performance of, audits and evaluations of federal or State awards, or limit the authority of any federal or State agency Inspector General or other federal or State official. For example, requirements that may be applicable under the Federal Acquisition Regulations (FAR) or Cost Accounting Standards (CAS) and the terms and conditions of a cost-reimbursement contract may include additional applicable audits to be conducted or arranged for by federal agencies.

A federal agency that conducts or arranges for additional audits must, consistent with other applicable laws and regulations, arrange for funding the full cost of such additional audits.

A federal agency may request an auditee to have a particular federal program audited as a major program in lieu of the federal agency conducting or arranging for the additional audits. To allow for planning, such requests should be made at least 180 days prior to the end of the fiscal year being audited. The auditee, after consultation with its auditor, should promptly respond to such requests by informing the federal agency whether the program would otherwise be audited as a major program using the risk-based audit approach described in Section 518 of the OMB's Uniform Guidance and, if not, the estimated incremental cost. The federal agency must then promptly confirm whether it wants the program audited as a major program with the auditee. If the program is to be audited as a major program based on this federal agency request, and the federal agency agrees to pay the full incremental costs, then the auditee must have the program audited as a major program. A pass-through entity, such as the State, may use the provisions of this paragraph for a subrecipient.

### **Sanctions**

Section 200.505 (200.425) of the Uniform Guidance discusses sanctions. In cases of continued inability or unwillingness to have an audit conducted in accordance with the Uniform Guidance, federal and State agencies and pass-through entities must take appropriate action as provided in §200.338 Remedies for noncompliance.

### **Audit Costs**

Section 200.506 of the Uniform Guidance discusses audit costs.

- a) A reasonably proportionate share of the costs of audits required by, and performed in accordance with, the Single Audit Act Amendments of 1996 (31 U.S.C. 7501–7507), as implemented by requirements of this Part, are allowable. However, the following audit costs are unallowable:
  - (1) Any costs when audits required by the Single Audit Act and Subpart F— Audit Requirements of this Part have not been conducted or have been conducted but not in accordance therewith; and

- (2) Any costs of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and Subpart F—Audit Requirements of this Part because its expenditures under Federal awards are less than \$750,000 during the non-Federal entity's fiscal year.
- (b) The costs of a financial statement audit of a non-Federal entity that does not currently have a Federal award may be included in the indirect cost pool for a cost allocation plan or indirect cost proposal.
- (c) Pass-through entities may charge Federal awards for the cost of agreed-upon-procedures engagements to monitor subrecipients (in accordance with Subpart D—Post Federal Award Requirements of this Part, §§ 200.330 Subrecipient and contractor determinations through 200.332 Fixed Amount Subawards) who are exempted from the requirements of the Single Audit Act and Subpart F—Audit Requirements of this Part. This cost is allowable only if the agreed-upon-procedures engagements are:
  - (1) Conducted in accordance with GAGAS attestation standards;
  - (2) Paid for and arranged by the pass-through entity; and
  - (3) Limited in scope to one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; and reporting.

If a single audit is required due to State requirements, audit costs would be allowable costs to the State funds that caused the local government or public authority to meet the threshold for a single audit. Since certain audit costs may not be chargeable to federal awards, auditors should document the amount of audit time for each major program. When a federal program is audited as a major program because State expenditures in the program are equal to \$500,000 or more, but the program would otherwise not be audited as a major program under the provision of the OMB Uniform Guidance Subpart F, the audit costs should only be charged to State funds.

### **Auditee Responsibilities**

Section 508 of OMB Uniform Guidance discusses responsibilities of the auditee. The auditee must:

- (a) Procure or otherwise arrange for the audit required by Subpart F in accordance with § 200.509 Auditor selection, and ensure it is properly performed and submitted when due in accordance with § 200.512 Report submission.
- (b) Prepare appropriate financial statements, including the SEFSA in accordance with §200.510.
- (c) Promptly follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with Audit findings follow-up §200.511(b)(c).
- (d) Provide the auditor with access to personnel, accounts, books, records, supporting documentation, and other information as needed for the auditor to perform the audit required by this Part.

### **Auditor Selection**

In procuring audit services, units of government and public authorities are reminded of the auditor procurement requirements stated in Section 509(a) of the Uniform Guidance. When procuring audit services, the objective is to obtain high-quality audits. In requesting proposals for audit services, the

objectives and scope of the audit must be made clear and the non-federal entity must request a copy of the audit organization's peer review report which the auditor is required to provide under GAGAS. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of peer and external quality control reviews, and price.

Although the selection of the auditor is the responsibility of the local government or public authority's governing board, the LGC recommends the use of a two-part process, which conforms to the recommendations from the National Intergovernmental Audit Forum (NIAF). The use of the two-part process will help the units that are subject to a single audit document compliance requirements with section 509(a) of the OMB Uniform Guidance. The request for proposal (RFP) process involves an initial determination of the firm's credentials and fitness to conduct the audit. This is done in the absence of the knowledge of the firm's monetary bid on the engagement. Those firms meeting the requirements in the first part of the process move on to the second part, which is the evaluation of the bids submitted. This process provides the staff presenting a recommendation to the local officials with an objective basis for selecting an auditor who did not submit the lowest bid, but may be best qualified to perform the audit.

In procuring audit services, the auditee must follow the procurement standards prescribed by the Procurement Standards in sections 200.317 Procurement by states through 200.326 Contract provisions of Subpart D- Post Federal Award Requirements of this Part or the FAR (48 CFR Part 42), as applicable.

Whenever possible, the auditee must make positive efforts to utilize small businesses, minority-owned firms, and women's business enterprises in procuring audit services as stated in § 200.321 Contracting with small and minority businesses, women's business enterprises, and labor surplus area firms or the FAR (48 CFR Part 42), as applicable.

An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the single audit when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

### **Financial Statements**

Financial Statements - Section 510 of OMB Uniform Guidance discusses financial statements. The auditee must prepare financial statements that reflect its financial position, results of operations or changes in net position, and, where appropriate, cash flows for the fiscal year audited. The financial statements must be for the same organizational unit and fiscal year that is chosen to meet the requirements of the Uniform Guidance. However, organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with OMB Uniform Guidance §200.514(a) and prepare separate financial statements.

Schedule of expenditures of federal and State awards - The auditee must also prepare a SEFSA for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by federal and State awarding agencies and pass-through entities to make the schedule easier to use. For example, when a federal program has multiple award years, the auditee may list the amount of federal awards expended for each award year separately. At a minimum, the schedule must:

1. List individual federal and State programs by federal and State agency. For federal and State programs included in a cluster of programs, list individual federal and State programs within a cluster of programs. For R&D, total federal awards expended must be shown either by individual award or by federal agency and major subdivision within the federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
2. For federal and State awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
3. Provide total federal and State awards expended for each individual federal and State program and provide the CFDA number for each federal program or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
4. Include the total amount provided to subrecipients from each federal and State program.
5. For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify the balances outstanding at the end of the audit period in the notes to the schedule. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
6. Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the non-Federal entity elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

#### **Audit Findings Follow-Up**

General – The Audit Guide on Government Auditing Standards and Single Audit and §200.511 discusses audit findings follow-up. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings. The auditee must also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan must include the reference numbers the auditor assigns to audit findings under OMB Uniform Guidance §200.516. Since the summary schedule may include audit findings from multiple years, it must include the fiscal year in which the finding initially occurred. The corrective action plan and summary of prior audit findings must include findings related to the financial statements which are required to be reported in accordance with GAGAS.

Summary schedule of prior audit findings - The summary schedule of prior audit findings must report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal and State awards. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected, no longer valid, or not warranting further action.

- (1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- (2) When audit findings were not corrected or were only partially corrected, the summary schedule must describe the reasons for the audit finding's recurrence and the planned corrective action or any partial corrective action taken.

- (3) When corrective action is taken that is significantly different from corrective action previously reported in a corrective action plan or in the federal or State agency or pass-through entity's management decision, the summary schedule must provide an explanation.
- (4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - (i) Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse or funding State agency;
  - (ii) The federal or State agency or pass-through entity is not currently following up with the auditee on the audit finding; and
  - (iii) A management decision was not issued.

Corrective action plan - At the completion of the audit, the auditee must prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

### **Report Submission**

Auditors are required to submit audit reports and other required documents to the Local Government Commission no later than four months after fiscal year end. For June 30 fiscal year-end audits, the due date is October 31<sup>st</sup>. Audit reports and other required documents must be submitted through the LGC portal. This can be accessed at <http://nctreasurer.slgfd.leapfile.net>.

Items to be submitted to the Local Government Commission: Submitted documents must include:

1. Audited financial statements including the Schedule of Expenditures of Federal and State awards;
2. Summary Schedule of Prior Audit Findings, when applicable;
3. Auditor's reports (see discussion of required reports);
4. Schedule of Findings and Questioned Costs which must include:
  - a) A summary of auditor's results,
  - b) Findings which are required to be reported in accordance with GAGAS,
  - c) Findings and questioned costs for federal awards; and
  - d) Findings and questioned cost for State awards;
5. Corrective action plan (if findings);
6. Auditor communication such as *Communication on Internal Controls Related Matters* (AU-C §265), *Auditor's Communication to Those Charged with Governance* (AU-C §260), and/or a management letter;
7. Counties and District Health – OSA Documents (Turnaround Document and CPA Representation Letter).

Instructions for submitting audit reports, documents, and other forms may be found at <https://www.nctreasurer.com/slg/lfm/forms-instructions/Pages/Annual-Audit-Forms-and-Resources.aspx>.

Local governmental entities and public authorities are responsible for filing audit information to the federal audit clearinghouse as required in Uniform Guidance §200.512.

The LGC makes available to State agencies electronic copies of audit reports and auditor communication by placing them in a portal where they can be accessed. This portal is not available to the public, including the local auditors. Below is a list of State agencies that currently have access to these audits. State agencies that would like to have access to the audits on the portal can contact the LGC at 919-814-4299. Local governmental entities that receive funding from State agencies that are not on the list should make their own arrangements to report their audit information.

<b>State Agencies Receiving Reports</b>	
<a href="#">NC Department of Agriculture</a>	<a href="#">NC Housing Finance Agency</a>
<a href="#">NC Department of Commerce</a>	NC Department of Public Instruction
NC Department of Cultural and Natural Resources	<a href="#">NC Department of Public Safety</a>
NC Department of Environmental Quality	NC Department of Transportation
<a href="#">NC General Assembly</a>	Office of the State Auditors
NC Department of Health and Human Services	911 Board

Two agencies, [NC Department of Environmental Quality](#) and [NC Department of Transportation](#) have requested that local governments and auditors do not submit copies directly to their agencies. They will obtain audit reports of local governments solely from the NC DST portal.

Section 512 of OMB Uniform Guidance describes the auditee’s responsibilities for report submission to the federal government.

The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor’s report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or federal holiday, the reporting package is due the next business day.

Unless restricted by federal statutes or regulations, the auditee must make copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

The Federal Audit Clearinghouse (FAC) is the repository of record for Subpart F— Audit Requirements of this Part, reporting packages, and the data collection form. All federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

The auditee must submit required data elements described in Appendix X to Part 200—Data Collection Form (Form SF–SAC), which state whether the audit was completed in accordance with this Part and provides information about the auditee, its Federal programs, and the results of the audit. The data must include information available from the audit required by this Part that is necessary for Federal agencies to use the audit to ensure integrity for Federal programs. The data elements and format must be approved by OMB, available from the FAC, and include collections of information from the reporting package described in paragraph (c) of this section. A senior level representative of the auditee (e.g., state controller, director of finance, chief executive officer, or chief financial officer) must sign a statement to

be included as part of the data collection that says that the auditee complied with the requirements of this Part, the data were prepared in accordance with this Part (and the instructions accompanying the form), the reporting package does not include protected personally identifiable information, the information included in its entirety is accurate and complete, and that the FAC is authorized to make the reporting package and the form publicly available on a website.

Using the information included in the reporting package described in paragraph (c) of this section, the auditor must complete the applicable data elements of the data collection form. The auditor must sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package described in the paragraph below, and that the content of the form is limited to the collection of information prescribed by OMB.

Reporting Package: Items that are required to be submitted to the FAC are a completed data collection form (form SF-SAC) and one complete copy of the Single Audit reporting package which must include:

- Financial statement(s) including the Schedule of Expenditures of Federal Awards
- Auditor's opinion on the financial statements
- Yellow Book report
- Report on compliance on each federal major program and internal controls over compliance and opinion or disclaimer of opinion on Schedule of Federal Awards
- Summary Schedule of Prior Audit Findings
- Schedule of Findings and Questioned Costs
- Corrective action plan (if findings)

Submission to FAC: The auditee must electronically submit the data collection form and the reporting package to the FAC.

Requests for management letters issued by the auditor: In response to requests by a Federal agency or pass-through entity, auditees must submit a copy of any management letters issued by the auditor.

Report retention requirements: Auditees must keep one copy of the data collection form and one copy of the reporting package on file for three years from the date of submission to the FAC.

FAC responsibilities: The FAC must make available the reporting packages and maintain a database of completed audits, provide appropriate information to federal agencies, and follow up with known auditees that have not submitted the required data collection forms and reporting packages.

Electronic filing: Nothing in Subpart F must preclude electronic submissions to the FAC in such manner as may be approved by OMB.

**N. C. Office of State Auditor  
Turnaround Document, CPA's Representation Letter,  
and Agreed-Upon Procedures Report.**

Independent auditors who audit counties and health districts<sup>7</sup>, when applicable, that have federal programs designated by the N. C. Office of State Auditor as major State programs with split eligibility

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<sup>7</sup> District Health authorities are applicable when OSA determines that the Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) or "WIC" is a State major program. This determination is usually in April.

requirements must complete a turnaround document and a CPA representation letter that are addressed to the State Auditor. Copies of these documents must be submitted to the LGC along with the county's and health district's audit-reporting package. As part of their audit documentation to satisfy the federal eligibility compliance requirement, the Office of State Auditor will use the turnaround document and CPA representation letter. Copies of these documents and a list of the major State programs that require eligibility testing can be found at the LGC's Single Audit Resources website under State Auditor – Local Eligibility Testing Programs and Documents.

### **Federal and State Agencies and Pass-through Entities Responsibilities**

Section 513 of the OMB Uniform Guidance discusses federal agencies' and pass-through entities' responsibilities.

Cognizant agency for audit responsibilities - Recipients expending more than \$50 million (\$25 million for fiscal years ending before December 31, 2003) a year in federal awards must have a cognizant agency for audit. The designated cognizant agency for audit must be the federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB makes a specific cognizant agency for audit assignment.

The determination of the predominant amount of direct funding must be based upon direct federal awards expended in the recipient's fiscal years ending in 2009, 2014, 2019, and every fifth year thereafter. For example, audit cognizance for periods ending in 2011 through 2015 will be determined based on federal awards expended in 2009.

Notwithstanding the manner in which audit cognizance is determined, a federal awarding agency with cognizance for an auditee may reassign cognizance to another federal awarding agency which provides substantial direct funding and agrees to be the cognizant agency for audit. Within 30 days after any reassignment, both the old and the new cognizant agency for audit must provide notice of the change to the FAC, the auditee, and, if known, the auditor of the reassignment. The cognizant agency for audit must:

- (i) Provide technical audit advice and liaison assistance to auditees and auditors.
- (ii) Obtain or conduct quality control reviews on selected audits made by non-Federal auditors, and provide the results to other interested organizations. Cooperate and provide support to the Federal agency designated by OMB to lead a government-wide project to determine the quality of single audits by providing a statistically reliable estimate of the extent that single audits conform to applicable requirements, standards, and procedures; and to make recommendations to address noted audit quality issues, including recommendations for any changes to applicable requirements, standards and procedures indicated by the results of the project. This government-wide audit quality project must be performed once every 6 years beginning in 2018 or at such other interval as determined by OMB, and the results must be public.
- (iii) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor required by GAGAS or statutes and regulations.
- (iv) Advise the community of independent auditors of any noteworthy or important factual trends related to the quality of audits stemming from quality control reviews. Significant problems or quality issues consistently identified through quality control reviews of audit reports must be referred to appropriate state licensing agencies and professional bodies.

- (v) Advise the auditor, Federal awarding agencies, and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee must work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit must notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance by auditors must be referred to appropriate state licensing agencies and professional bodies for disciplinary action.
- (vi) Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to the Uniform Guidance, so that the additional audits or reviews build upon rather than duplicate audits performed in accordance with the Uniform Guidance.
- (vii) Coordinate a management decision for cross-cutting audit findings (as defined in § 200.30 Cross-cutting audit finding) that affect the Federal programs of more than one agency when requested by any Federal awarding agency whose awards are included in the audit finding of the auditee.
- (viii) Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.
- (ix) Provide advice to auditees as to how to handle changes in fiscal years.

Oversight agency for audit responsibilities: An auditee who does not have a designated cognizant agency for audit will be under the general oversight of the Federal agency determined in accordance with §200.73 Oversight agency for audit. A Federal agency with oversight for an auditee may reassign oversight to another Federal agency that agrees to be the oversight agency for audit. Within 30 calendar days after any reassignment, both the old and the new oversight agency for audit must provide notice of the change to the FAC, the auditee, and, if known, the auditor. The oversight agency for audit:

- (i) Must provide technical advice to auditees and auditors as requested.
- (ii) May assume all or some of the responsibilities normally performed by a cognizant agency for audit.

Federal awarding agency responsibilities: The Federal awarding agency must perform the following for the Federal awards it makes (See also the requirements of § 200.210 Information contained in a Federal award):

- (i) Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this Uniform Guidance
- (ii) Provide technical advice and counsel to auditees and auditors as requested.
- (iii) Follow up on audit findings to ensure that the recipient takes appropriate and timely corrective action. As part of audit follow-up, the Federal awarding agency must:
  - a. Issue a management decision as prescribed in § 200.521 Management decision;
  - b. Monitor the recipient taking appropriate and timely corrective action;

- c. Use cooperative audit resolution mechanisms (see § 200.25 Cooperative audit resolution) to improve Federal program outcomes through better audit resolution, follow-up, and corrective action; and
  - d. Develop a baseline, metrics, and targets to track, over time, the effectiveness of the Federal agency's process to follow up on audit findings and on the effectiveness of Single Audits in improving non-Federal entity accountability and their use by Federal awarding agencies in making award decisions.
- (iv) Provide OMB annual updates to the compliance supplement and work with OMB to ensure that the compliance supplement focuses the auditor to test the compliance requirements most likely to cause improper payments, fraud, waste, or abuse or generate audit finding for which the Federal awarding agency will take sanctions.
- (v) Provide OMB with the name of a single audit accountable official from among the senior policy officials of the Federal awarding agency who must be:
- a. Responsible for ensuring that the agency fulfills all the requirements of § 200.513 Responsibilities and effectively uses the single audit process to reduce improper payments and improve Federal program outcomes.
  - b. Held accountable to improve the effectiveness of the single audit process based upon metrics as described in paragraph (iii)(d) of this section.
  - c. Responsible for designating the Federal agency's key management single audit liaison.
- (vi) Provide OMB with the name of a key management single audit liaison who must:
- a. Serve as the Federal awarding agency's management point of contact for the single audit process both within and outside the Federal government.
  - b. Promote interagency coordination, consistency, and sharing in areas such as coordinating audit follow-up; identifying higher-risk non-Federal entities; providing input on single audit and follow-up policy; enhancing the utility of the FAC; and studying ways to use single audit results to improve Federal award accountability and best practices.
  - c. Oversee training for the Federal awarding agency's program management personnel related to the single audit process.
  - d. Promote the Federal awarding agency's use of cooperative audit resolution mechanisms.
  - e. Coordinate the Federal awarding agency's activities to ensure appropriate and timely follow-up and corrective action on audit findings.
  - f. Organize the Federal cognizant agency for audit's follow-up on crosscutting audit findings that affect the Federal programs of more than one Federal awarding agency.
  - g. Ensure the Federal awarding agency provides annual updates of the compliance supplement to OMB.
  - h. Support the Federal awarding agency's single audit accountable official's mission.

Pass-through entity responsibilities - All pass-through entities must:

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal Award Identification.

- (i) Subrecipient name (which must match registered name in DUNS);
  - (ii) Subrecipient's DUNS number (see § 200.32 Data Universal Numbering System (DUNS) *number*);
  - (iii) Federal Award Identification Number (FAIN);
  - (iv) Federal Award Date (see § 200.39 Federal award date);
  - (v) Subaward Period of Performance Start and End Date;
  - (vi) Amount of Federal Funds Obligated by this action;
  - (vii) Total Amount of Federal Funds Obligated to the subrecipient;
  - (viii) Total Amount of the Federal Award;
  - (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
  - (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official,
  - (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
  - (xii) Identification of whether the award is R&D; and
  - (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414 Indirect (F&A) costs).
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with the Uniform Guidance), or a de minimis indirect cost rate as defined in § 200.414 Indirect (F&A) costs, paragraph (fb) of the Uniform Guidance.
- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this section, §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance, and Subpart F—Audit Requirements of this Part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward.
- (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (d) and (e) of this section, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
  - (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this Part, and the extent to which the same or similar subaward has been audited as a major program;
  - (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
  - (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- (c) Consider imposing specific subaward conditions upon a subrecipient if appropriate as described in § 200.207 Specific conditions.
- (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
- (1) Reviewing financial and programmatic reports required by the pass-through entity.
  - (2) Following up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
  - (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision.
- (e) Depending upon the pass-through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:
- (1) Providing subrecipients with training and technical assistance on program-related matters; and
  - (2) Performing on-site reviews of the subrecipient's program operations;
  - (3) Arranging for agreed-upon procedures engagements as described in § 200.425 Audit services.
- (f) Verify that every subrecipient is audited as required by Subpart F— Audit Requirements of this Part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.
- (g) Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.
- (h) Consider taking enforcement action against noncompliant subrecipients as described in § 200.338 Remedies for noncompliance of this Part and in program regulations.

### **Management Decision**

Section 200.521 of the Uniform Guidance discusses the management decision. The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the federal or State agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the

documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

The cognizant agency for audit must be responsible for coordinating a management decision for audit findings that affect the programs of more than one federal agency. A federal or State awarding agency is responsible for issuing a management decision for findings that relate to the federal or State awards it makes to recipients. Alternate arrangements may be made on a case-by-case basis by agreement among the federal or State agencies concerned. The pass-through entity must be responsible for making the management decision for audit findings that relate to federal or State awards it makes to subrecipients.

The entity responsible for making the management decision must do so within six months of receipt of the audit report. Corrective action must be initiated within six months after receipt of the audit report and proceed as rapidly as possible. Corrective action should begin no later than upon receipt of the audit report. Management decisions must include the reference numbers the auditor assigned to each audit finding.

### **Scope of a Single Audit**

Section 200.514 of the Uniform Guidance discusses the scope of a single audit. The audit must be conducted in accordance with GAGAS. The audit must cover the entire operations of the auditee; or, at the option of the auditee, such audit must include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered federal and State awards during such fiscal year, provided that each such audit must encompass the financial statements and SEFSA for each such department, agency, and other organizational unit, which must be considered to be a non-federal entity. The financial statements and SEFSA must be for the same fiscal year.

The auditor must determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles. The auditor must also determine whether the SEFSA presented fairly in all material respects in relation to the auditee's financial statements taken as a whole.

Internal Control - The compliance supplement provides guidance on internal controls over federal programs based upon the guidance in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States and the *Internal Control— Integrated Framework*, issued by the Committee of Sponsoring Organizations. In addition to the requirements of GAGAS, the auditor must perform procedures to obtain an understanding of internal control over federal and State programs that is sufficient to plan the audit to support a low assessed level of control risk for major programs.

The auditor must:

- (1) Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and
- (2) Perform testing of internal control as planned.

When internal control over some or all of the compliance requirements for a major program is likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described above are not required for those compliance requirements. However, the auditor must report a significant deficiency (including whether any such condition is a material weakness), assess the related

control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

Compliance - In addition to the requirements of GAGAS, the auditor must determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs. The principal compliance requirements applicable to most federal and State programs are included in the federal and State compliance supplements. For the compliance requirements related to federal and State programs contained in the compliance supplements, an audit meeting these compliance requirements will meet the requirements of the OMB Uniform Guidance. Where there have been changes to the compliance requirements of a federal program and the changes are not reflected in the compliance supplement, the auditor must determine the current compliance requirements and modify the audit procedures accordingly. For those federal programs not covered in the federal compliance supplement, the auditor should follow the compliance supplement's guidance for programs not included in the supplement. The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient and appropriate audit evidence to support an opinion on compliance.

Audit follow-up - The auditor must follow up on prior audit findings and perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee. If the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding, a current year finding must be reported. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.

### **Required Audit Reports**

Auditors should use the report examples provided by the Local Government Commission in this Audit Manual. These reports are based on sample reports issued by the AICPA and have been modified for the State Single Audit Implementation Act. The following reports are required for single audits of local governments and public authorities in North Carolina:

Report on the Basic Financial Statements (GASB 34 model) - Required for all audits.

Report On Compliance and on Internal Control Over Financial Reporting Required by Government Auditing Standards - Required for all Yellow Book audits and all single audits.

Report On Compliance With Requirements Applicable To Each Major Federal Program and Internal Control Over Compliance Required By the Uniform Guidance - Required for all single audits when expenditures of federal awards are \$750,000 or more.

Report On Compliance With Requirements Applicable To Each Major State Program and Internal Control Over Compliance Required By Applicable Sections of the Uniform Guidance and the State Single Audit Implementation Act - Required for all single audits when \$500,000 or more in state financial assistance has been expended.

Schedule Of Findings And Questioned Costs – Required for all single audits, and must include the following four components:

- (1) A summary of the auditor's results which must include:
  - (i) The type of report the auditor issued on the financial statements of the auditee (i.e., unmodified opinion, modified opinion, adverse opinion, or disclaimer of opinion);

- (ii) Where applicable, a statement that significant deficiencies<sup>4</sup> or material weaknesses in internal control were disclosed by the audit of the financial statements;
  - (iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;
  - (iv) Where applicable, a statement that significant deficiencies<sup>4</sup> or material weaknesses in internal control over major federal programs were disclosed by the audit;
  - (v) The type of report the auditor issued on compliance for major federal programs (i.e., unmodified opinion, modified, adverse opinion, or disclaimer of opinion);
  - (vi) A statement as to whether the audit disclosed any audit findings for federal programs which the auditor is required to report under §200.516(a);
  - (vii) An identification of major federal programs by listing each individual major program; however, in the case of a cluster of programs, only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required;
  - (viii) The dollar threshold used to distinguish between Type A and Type B programs, as described in §200.518(b)(1) or (b)(3) when a recalculation of the Type A threshold is required for large loan or loan guarantees; and
  - (ix) A statement as to whether the auditee qualified as a low-risk auditee under §200.520, Criteria for low-risk auditee.
  - (x) Where applicable, a statement that significant deficiencies<sup>4</sup> or material weaknesses in internal control over major State programs were disclosed by the audit;
  - (xi) The type of report the auditor issued on compliance for major State programs (i.e., unmodified opinion, modified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
  - (xii) A statement as to whether the audit disclosed any audit findings for State programs which the auditor is required to report under the State Single Audit Implementation Act;
  - (xii) An identification of major State programs;
- (2) Findings relating to the financial statements which are required to be reported in accordance with GAGAS.
  - (3) Findings and questioned costs for federal awards which must include audit findings as defined in §200.516(a)
  - (4) Findings and questioned costs for State awards which must include audit findings as defined in §200.516 (a).

- (i) Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) which relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by federal and State agency or pass-through entity.
- (ii) Audit findings which relate to both the financial statements and federal and/or State awards, should be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.

### **Audit Findings**

As discussed above, the Schedule of Findings and Questioned Costs should include a section that reports the findings relating to the financial statements. This section of the schedule must include all significant deficiencies<sup>4</sup> in the internal control over financial reporting and other findings relative to the audit of the financial statements that are required to be reported by GAAS and Government Auditing Standards, including those that do not affect federal awards. In addition to requiring auditors to report significant deficiencies<sup>4</sup> in the internal control over financial reporting, Government Auditing Standards require auditors to report all but clearly inconsequential fraud and illegal acts that the auditor concludes, based on the evidence obtained, either occurred or are likely to have occurred. Government Auditing Standards also require the auditor to report other noncompliance (for example violations of the provisions of contract or grant agreements) that is material to the financial statements. In addition, the auditor is to communicate abuse that is material, either quantitatively or qualitatively.

Section 516 of the Uniform Guidance discusses single audit findings. The auditor must report the following as audit findings for federal or State awards in a schedule of findings and questioned costs:

- (1) Significant deficiencies<sup>4</sup> and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency<sup>4</sup> or a material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement.
- (2) Material noncompliance with the Federal statutes, regulations, or the terms and conditions of Federal awards related to major programs identified in the compliance supplement.
- (3) Known questioned costs which are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.
- (4) Known questioned costs which are greater than \$25,000 for a federal or State program which is not audited as a major program. Except for audit follow-up, the auditor is not required under the Uniform Guidance to perform audit procedures for such a federal or State program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a federal or State program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor must report this as an audit finding.

- (5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal and State awards.
- (6) Known or likely fraud affecting a federal or State award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for federal and State awards. This paragraph does not require the auditor to report publicly information which could compromise an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.
- (7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

**Questioned Costs:** The LGC will reject single audit reports that have compliance findings and either no questioned cost amount is provided or there is no explanation of why the finding had no questioned cost. OMB Uniform Guidance §200.516(a)(3) states that “Known questioned costs which are greater than \$25,000 for a type of compliance requirement for a major program” must be reported as a finding. Occasionally, the auditor will list a compliance finding and cite questioned costs as “none” or “undeterminable”. Though it is understandable that questioned costs cannot be determined in certain findings of noncompliance, an explanation of why is necessary. Funding agencies need this information to adequately make a management decision.

Audit findings must be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for federal and State agencies and pass-through entities to arrive at a management decision. Findings relating to federal awards should be presented in Section III of the schedule of findings and questioned costs. Findings relating to State awards should be presented in Section IV of the schedule. Findings that relate to both federal and State programs should be presented in both Sections III and IV. The following specific information must be included, as applicable, in audit findings:

- (1) Federal or State program name and specific federal award identification including the CFDA title and number, federal or State award number and year, name of federal or State agency, and name of the applicable pass-through entity. When information, such as the CFDA title and number or federal or State award number, is not available, the auditor must provide the best information available to describe the federal or State award.
- (2) The criteria or specific requirement upon which the audit finding is based, including Federal statutes, regulatory, or terms and conditions of Federal awards. Criteria generally identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding findings.
- (3) The condition found, including facts that support the deficiency identified in the audit finding.
- (4) A statement of cause that identifies the reason or explanation for the condition or the factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action.

- (5) The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action. A statement of the effect or potential effect should provide a clear, logical link to establish the impact or potential impact of the difference between the condition and the criteria.
- (6) Identification of questioned costs and how they were computed. Known questioned costs must be identified by applicable CFDA number(s) and applicable Federal award identification number(s).
- (7) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified must be related to the universe and the number of cases examined and be quantified in terms of dollar value. The auditor should report whether the sampling was a statistically valid sample.
- (8) Identification of whether the audit finding was a repeat of a finding in the immediately prior audit and, if so, any applicable prior year audit finding numbers.
- (9) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- (10) Views of responsible officials of the auditee.

Each audit finding in the schedule of findings and questioned costs must include a reference number to allow for easy referencing of the audit findings during follow-up.

#### **Audit Documentation**

Section 517 of the OMB Uniform Guidance discusses audit documentation. The auditor must retain audit documentation and reports for a minimum of three years after the date of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, or pass-through entity to extend the retention period. When the auditor is aware that the federal or State awarding agency, pass-through entity, or auditee is contesting an audit finding, the auditor must contact the parties contesting the audit finding for guidance prior to destruction of the audit documentation and reports.

Audit documentation must be made available upon request to the cognizant or oversight agency for audit or its designee, a federal or State agency providing direct or indirect funding, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of OMB Uniform Guidance. Access to audit documentation includes the right of federal or State agencies to obtain copies of audit documentation, as is reasonable and necessary.

#### **Major Program Determination**

Federal and State expenditures must not be combined when determining major programs. However, if a program is determined to be either a major federal program or a major State program, the whole program must be tested as a major program.

A major State program is defined as a program with State expenditures, including State benefit payments. Beginning with June 30, 2016 audit years, a State program is determined to be a major program by the following process.

1. For federal programs with a \$500,000 or more State matched financial assistance or State supplement, the program must be audited as major unless it was audited as major in at least one of the two most recent audit periods.
2. A single State financial assistance program with expenditures of \$500,000 or more must be audited as major if it is determined to be high risk using the criteria for federal program risk found in Section 519 of the OMB Uniform Guidance (or refer to page 35-E-31). A program may be considered low risk if it was audited as major in at least one of the two most recent audit periods and the auditor feels that prior year audit findings, if any, do not preclude the program from being low risk.

**Selection of Federal Programs:** Section 518 of the OMB Uniform Guidance discusses major federal program determination. The auditor must use a risk-based approach to determine which federal programs are major programs. This risk-based approach must include consideration of current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The process in the following paragraphs must be followed.

- Step 1 (1) The auditor must identify the larger federal programs, which must be labeled Type A programs. Type A programs are defined as federal programs with federal awards expended during the audit period exceeding the larger of:

<b>When total federal award expenditures are...</b>	<b>Type A/B threshold will be...</b>
\$750,000 ≤ \$25 million	\$750,000
\$25 million ≤ \$100 million	.03 times total federal awards expended
\$100 million ≤ \$10 billion	\$3 million

The auditor should obtain the SEFSA from the auditee to assist in the identification of Type A and Type B programs. For the purposes of determining major programs, a cluster of programs should be considered as one program.

- (2) Federal programs not labeled Type A must be labeled Type B programs.
- (3) The inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs. When a Federal program providing loans exceeds four times the largest non-loan program it is considered a large loan program, and the auditor must consider this Federal program as a Type A program and exclude its values in determining other Type A programs. This recalculation of the Type A program is performed after removing the total of all large loan programs. For the purposes of this paragraph a program is only considered to be a Federal program providing loans if the value of Federal awards expended for loans within the program comprises fifty percent or more of the total Federal awards expended for the program.

A cluster of programs is treated as one program and the value of Federal awards expended under a loan program is determined as described in §200.502 Basis for determining Federal awards *expended*.

- Step 2. (1) The auditor must identify Type A programs which are low-risk. In making this determination, the auditor must consider whether the requirements in §200.519 Criteria for Federal program risk, paragraph (c), the results of audit follow-up, or any changes in personnel or systems affecting the program indicate significantly increased risk and preclude the program from being low-risk. For a Type A program to be considered low-risk, it must have been audited as a major program in at least one of the two most recent

audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, the program must have not had:

- (i) Internal control deficiencies which were identified as material weaknesses in the auditor's report on internal control for major programs as required under § 200.515 Audit reporting, paragraph (c);
- (ii) A modified opinion on the program in the auditor's report on major programs as required under § 200.515 Audit reporting, paragraph (c); or
- (iii) Known or likely questioned costs that exceed five percent of the total Federal awards expended for the program.

- (2) OMB may approve a Federal awarding agency's request that a Type A program may not be considered low-risk for a certain recipient. For example, it may be necessary for a large Type A program to be audited as a major program each year at a particular recipient to allow the Federal awarding agency to comply with 31 U.S.C. 3515. The Federal awarding agency must notify the recipient and, if known, the auditor, of OMB's approval at least 180 calendar days prior to the end of the fiscal year to be audited.

- Step 3
- (1) The auditor must identify Type B programs which are high-risk using professional judgment and the criteria in § 200.519 Criteria for Federal program risk. However, the auditor is not required to identify more high-risk B programs than at least one fourth the number of low-risk Type A programs identified as low-risk under Step 2 (paragraph (c) of this section). Except for known material weakness in internal control or compliance problems as discussed in § 200.519 Criteria for Federal program risk paragraphs (b)(1), (b)(2), and (c)(1), a single criteria in risk would seldom cause a Type B program to be considered high-risk. When identifying which Type B programs to risk assess, the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time.
  - (2) The auditor is not expected to perform risk assessments on relatively small federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed twenty-five percent (0.25) of the Type A threshold determined in Step 1 (paragraph (b) of this section)..

Step 4 At a minimum, the auditor must audit all of the following as major programs:

- (1) All Type A programs not identified as low-risk under step two (paragraph (c)(1) of this section)..
- (2) All Type B programs as identified as high-risk under step three :
- (3) Such additional programs as may be necessary to comply with the percentage of coverage rule. This may require the auditor to audit more programs as major than the number of Type A programs.

Percentage of coverage rule - If the auditee meets the criteria in § 200.520 Criteria for a low-risk auditee, the auditor need only audit the major programs identified in Step 4 (1) and (2) of this section) and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 20 percent (0.20) of total Federal awards expended. Otherwise, the auditor must audit the major programs identified in Step 4 (paragraphs (e)(1) and (2) of this section) and such additional Federal programs with Federal awards expended that, in aggregate, all major programs encompass at least 40 percent (0.40) of total Federal awards expended.

The auditor must document in the audit documentation the risk analysis process used in determining major programs. When the major program determination was performed and documented in accordance with the OMB Uniform Guidance Section 518, the auditor's judgment in applying the risk-based approach to determine major programs must be presumed correct. Challenges by federal agencies and pass-through entities must only be for clearly improper use of the guidance in the OMB Uniform Guidance. However, federal agencies and pass-through entities may provide auditors guidance about the risk of a particular federal program and the auditor must consider this guidance in determining major programs in audits not yet completed.

**Additional State Requirement to Audit Certain Federal Programs as Major** - After major federal programs have been determined using the risk-based criteria, all federal programs with a \$500,000 or more State matched financial assistance or State supplement must be audited as major unless they were audited as major in at least one of the two most recent audit periods.

In addition to using the risk-based criteria for federal programs and the State threshold amounts, the N. C. Office of State Auditor identifies programs to be audited as a major by certain counties and area public health authorities in North Carolina in order to satisfy federal requirements on testing eligibility for programs determined major by the State of North Carolina. The Local Government Commission will notify the local government and their auditor in April of each year of programs designated by the Office of State Auditor.

Percentage of coverage rule for State programs: Programs with State awards expended, either with a match or supplement to a federal program or in a single State financial assistance program that, in the aggregate, encompass at least 40 percent of total state awards expended, must be audited as major by the auditor. **There is no low-risk auditee determination for State awards.**

#### **Criteria For Federal and State Program Risk**

Section 519 of the OMB Uniform Guidance discusses the criteria for federal and State program risk. The auditor's determination should be based on an overall evaluation of the risk of the occurrence of noncompliance which could be material to the federal program. The auditor must use auditor judgment and consider the criteria listed below to identify risk in federal programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular federal program with auditee management and the federal agency or pass-through entity.

#### Current and prior audit experience –

- (1) Weaknesses in internal control over federal or State programs would indicate higher risk. Consideration should be given to the control environment over federal and State programs and such factors as the expectation of management's adherence to federal statutes, regulations, the terms and conditions, and the competence and experience of personnel who administer the federal programs.
  - (i) A federal or State program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor must consider whether weaknesses are isolated in a single operating unit.
  - (ii) When significant parts of a federal or State program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk. Alternatively, if the auditee passes a significant portion of programs to subrecipients and the auditee has an effective system in place to monitor the subrecipients, the auditor should consider assigning a lower level of risk to the program.

(2) Prior audit findings would indicate higher risk, particularly when the situations identified in the audit findings could have a significant impact on a federal program or have not been corrected.

(3) Federal programs not recently audited as major programs may be of higher risk than federal programs recently audited as major programs without audit findings.

Oversight exercised by federal agencies and pass-through entities - (1) Oversight exercised by federal agencies or pass-through entities could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk. (2) Federal agencies, with the concurrence of OMB, may identify federal programs which are higher risk. OMB plans to provide this identification in the compliance supplement.

Inherent risk of the federal program - (1) The nature of a federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the federal program contracts for goods and services. For example, federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have a high risk for time and effort reporting, but otherwise be low-risk.

(2) The phase of a federal program in its life cycle at the federal agency may indicate risk. For example, a new federal program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in federal programs, laws, regulations, or the provisions of contracts or grant agreements may increase risk.

(3) The phase of a federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a federal program, the risk may be higher due to start-up or closeout of program activities and staff.

(4) Type B programs with larger federal awards expended would be of higher risk than programs with substantially smaller federal awards expended.

#### **Criteria For A Low-Risk Auditee**

Section 520 of OMB Uniform Guidance discusses criteria for a low-risk auditee. An auditee which meets all of the following conditions for each of the preceding two years must qualify as a low-risk auditee and be eligible for reduced audit coverage:

(a) Single audits were performed on an annual basis in accordance with the provisions of OMB Subpart F of the Uniform Guidance, including submitting the data collection form and the reporting package to the FAC within the required timeframe.

(b) The auditor's opinions on the financial statements were prepared in accordance with GAAP or a basis of accounting required by State law, and the auditor's opinions? in relation to opinion on the schedule of expenditures of Federal and State awards were unmodified.

(c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS.

(d) The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.

(e) None of the federal programs had audit findings from any of the following in either of the preceding two years periods in which they were classified as Type A programs:

- (1) Internal control deficiencies which were identified as material weaknesses in the federal report on major programs;
- (2) A modified opinion on a major program in the auditor's report on major programs; or
- (3) Known or likely questioned costs that exceed five percent of the total federal awards expended for a Type A program during the year.

### **Federal and State Compliance Requirements**

OMB issues and updates the Compliance Supplement for non-federal entities that receive and expend federal financial assistance. The auditors are required to use the supplements for audits of fiscal years ending on or after June 30, 1997.

The State Compliance Supplements are prepared by the funding State agencies and reviewed, approved, and distributed by the Local Government Commission as Volume II of this part of the Audit Manual. Auditors must use the approved Compliance Supplements when performing audits of grantees receiving and expending State funds received from the State of North Carolina. Since the supplements are prepared by the funding agencies, specific questions relating to particular programs should be directed to the agency contact person listed in the Compliance Supplements.

The following are the compliance requirements that are detailed in the Compliance Supplements.

<b>Federal Compliance Requirements</b>	<b>State Compliance Supplements</b>
A. Activities Allowed or Unallowed	1. Activities Allowed or Unallowed
B. Allowable Costs/Cost Principles	2. Allowable Costs/Cost Principles
C. Cash Management	3. Cash Management
D. Reserved	4. Conflict of Interest
E. Eligibility	5. Eligibility
F. Equipment and Real Property Management	6. Equipment and Real Property Management
G. Matching, Level of Effort, Earmarking	7. Matching, Level of Effort, Earmarking
H. Period of Availability of Federal Funds	8. Period of Availability of Federal Funds
I. Procurement and Suspension and Debarment	9. Procurement and Suspension and Debarment
J. Program Income	10. Program Income
K. Reserved	11. Reserved
L. Reporting	12. Reporting
M. Subrecipient Monitoring	13. Subrecipient Monitoring
N. Special Tests and Provisions	14. Special Tests and Provisions

### **General Comments That Relate To All Reports**

1. All single audit reports must be signed and dated.
2. The single audit reports should be reviewed carefully before the audit report is issued to ensure that they are complete and consistent with the SEFSA and the schedule of findings and questioned costs.
3. The first page of each single audit report must be on the firm's letterhead.
4. Since each single audit report references the opinion issued on the audit of the basic financial statements (GASB 34 model), any departure from the standard report must be described. The

most frequent departure would be a reference to other auditors who audited a component unit when the opinion on the general purpose financial statements or basic financial statements is based in part on the report of other auditors.

## APPENDIX A

### Resources Needed for a Single Audit

In order to perform a single audit, the auditor must, at a minimum, be familiar with the following publications.

1. The Single Audit Act Amendments of 1996, Public Law 104-156
2. U. S. Office of Management and Budget (OMB) has issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
3. Governments Governmental Accounting Office: *Government Auditing Standards*, (the Yellow Book), 2011 Revision (effective January 1, 2008)
4. *AICPA Audit Guide: State and Local Governments* with conforming - changes as of March 1, 2016.
5. *AICPA Audit & Accounting Guide: Government Auditing Standards and Single Audits* - with conforming changes as of [March 1, 2017](#).
6. OMB Catalog of Federal Domestic Assistance (CFDA)
7. AU-C 935, *Compliance Audits*
8. Government Auditing Standards: *Guidance on GAGAS Requirements for Continuing Professional Education*, April 2005.
9. *GAO Standards for Internal Control in the Federal Government*, (the Green Book), 2014 Revision
10. State Compliance Supplements